

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

WILKIN COUNTY
BRECKENRIDGE, MINNESOTA

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for 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 over 700 public pension funds; and

Tax Increment Financing, Investment and Finance - 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 Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Year Ended December 31, 2005



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

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**ORGANIZATION SCHEDULE
DECEMBER 31, 2005**

Office	Name	Term Expires
Commissioners		
1st District	John Blaufuss	January 2009
2nd District	Stephanie Miranowski	January 2007
3rd District	Lyle Hovland	January 2009
4th District	Neal Folstad	January 2007
5th District	Robert Perry*	January 2009
Officials		
Elected		
Attorney	Timothy Fox	January 2007
Auditor	Wayne Bezenek	January 2007
County Recorder	Renae Niemi	January 2007
Registrar of Titles	Renae Niemi	January 2007
Sheriff	Thomas Matejka	January 2007
Treasurer	Rose Ann Hulne	January 2007
Appointed		
Assessor	Cheryl Wall	May 2007
Highway Engineer	Thomas Richels	May 2007
Medical Examiner	Dr. Vartan Malkasian	Indefinite
Veterans Service Officer	Ron Verhaagen	November 2007
Family Services Director	Dave Sayler	Indefinite

*Chair

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PATRICIA ANDERSON
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Wilkin County

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the County's basic financial statements. These financial statements are the responsibility of Wilkin County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We

have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Wilkin County's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2006, on our consideration of Wilkin 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.

/s/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 29, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2005

(Unaudited)

As management of Wilkin County, Minnesota, we offer the readers of the Wilkin County financial statements this narrative overview and analysis of its financial activities for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the basic financial statements that follow this section. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of Wilkin County exceeded its liabilities on December 31, 2005, by \$40,117,300. Of this amount, \$3,597,814 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of 2005, Wilkin County's governmental funds reported combined ending fund balances of \$6,756,337, an increase of \$1,700,532 in comparison with 2004. Of this balance amount, \$2,928,070 was unreserved by Wilkin County and thus available for spending at the government's discretion.
- At the end of 2005, unreserved fund balance of the General Fund was \$3,959,426, or 155 percent, of the total General Fund expenditures for that year.
- The County had General Obligation Bonds payable of \$3,750,000 at the end of 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

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

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

The government-wide statements can be found as Exhibits 1 and 2 of this report.

Fund Level Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Wilkin County adopts an annual appropriated budget for its General Fund, Road and Bridge Special Revenue Fund, Human Services Special Revenue Fund, Environmental Special Revenue Fund, and Public Health Nurse Special Revenue Fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with this budget.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of Wilkin County. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support Wilkin County's own programs or activities. The accounting for fiduciary funds is much like that used for the government-wide statements.

Notes to the Financial Statements

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

Other information is provided in a supplementary information schedule regarding Wilkin County intergovernmental revenues.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. Wilkin County's assets exceeded liabilities by \$40,117,300 at the close of 2005. The largest portion of the County's net assets (88 percent) reflects the County's investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related debt used to acquire those assets. However, it should be noted that these assets are not for future spending or for liquidating any remaining debt.

	Net Assets	
	2005	2004
Current and other assets	\$ 9,678,702	\$ 6,853,993
Capital assets	36,628,014	33,617,252
Total Assets	\$ 46,306,716	\$ 40,471,245
Long-term liabilities	\$ 3,983,591	\$ 238,886
Other liabilities	2,205,825	1,228,098
Total Liabilities	\$ 6,189,416	\$ 1,466,984
Net Assets		
Invested in capital assets	\$ 35,107,439	\$ 33,617,252
Restricted	1,412,047	353,065
Unrestricted	3,597,814	5,033,944
Total Net Assets	\$ 40,117,300	\$ 39,004,261

The unrestricted net assets amount of \$3,597,814 as of December 31, 2005, may be used to meet the County's ongoing obligations to citizens and creditors.

Governmental Activities

Wilkin County's activities increased Wilkin County's net assets during 2005 by \$1,113,039. Key elements in this increase are due to the addition of the Law Enforcement Center/Jail complex.

	Changes in Net Assets	
	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 1,362,840	\$ 1,355,470
Operating grants and contributions	4,808,834	4,697,582
Capital grants and contributions	471,998	707
General revenues		
Property taxes	3,331,431	3,071,730
Other taxes	7,390	7,858
Grants and contributions not restricted	1,129,261	1,173,018
Other general revenues	251,110	142,542
Total Revenues	\$ 11,362,864	\$ 10,448,907
Expenses		
General government	\$ 1,456,607	\$ 1,397,436
Public safety	894,386	1,087,567
Highways and streets	3,872,513	3,753,711
Sanitation	310,954	324,942
Human services	2,561,913	2,323,247
Health	649,041	612,478
Culture and recreation	51,321	50,821
Conservation of natural resources	320,377	303,950
Economic development	800	3,755
Interest	131,913	2,015
Total Expenses	\$ 10,249,825	\$ 9,859,922
Increase in Net Assets	\$ 1,113,039	\$ 588,985
Net Assets - January 1	39,004,261	38,415,276
Net Assets - December 31	\$ 40,117,300	\$ 39,004,261

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

As of the end of the current fiscal year, Wilkin County's governmental funds reported combined ending fund balances of \$6,756,337, an increase of \$1,700,532 in comparison with the prior year. Of the ending fund balance, \$2,928,070 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons.

The General Fund is a chief operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$3,959,426. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. General Fund unreserved fund balance represents 155 percent of total General Fund expenditures. In 2005, ending fund balance in the General Fund increased by \$75,793. The primary reason for this increase was excess revenues over expenditures of \$130,517, offset by a transfer out to the Law Enforcement Capital Projects Fund of \$54,724.

The Road and Bridge Special Revenue Fund's unreserved fund balance was a deficit of \$861,687 at year-end.

The Human Services Special Revenue Fund's unreserved fund balance of \$310,499 at year-end represents 12 percent of the fund's annual expenditures. Fund balance decreased \$137,433 during 2005 due to excess expenditures over revenues.

General Fund Budgetary Highlights

The Wilkin County Board of Commissioners did not make any budgetary amendments/revisions in 2005.

Actual revenues exceeded budgeted revenues by \$154,563, primarily due to increases in intergovernmental revenues.

Actual expenditures exceeded budgeted expenditures by \$1,246, due to excess costs in public safety's Law Enforcement Center/Jail project, initial disaster cost outlay, and increased equipment costs, offset by savings in general government and conservation of natural resources.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Wilkin County's capital assets for its governmental activities at December 31, 2005, totaled \$36,628,014 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure.

Governmental Capital Assets (Net of Depreciation)		
	<u>2005</u>	<u>2004</u>
Land	\$ 1,052,995	\$ 1,068,995
Infrastructure	31,003,034	29,861,791
Buildings	1,241,070	1,286,478
Improvements other than buildings	47,817	51,886
Machinery and equipment	1,247,863	1,156,440
Construction in progress	<u>2,035,235</u>	<u>191,662</u>
Total	<u>\$ 36,628,014</u>	<u>\$ 33,617,252</u>

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

Long-Term Debt

At the end of the current fiscal year, the County had a total outstanding debt of \$3,750,000.

	<u>2005</u>	<u>2004</u>
General Obligation Bonds	<u>\$ 3,750,000</u>	<u>\$ -</u>

The County debt related to General Obligation Bonds increased by \$3,750,000--100 percent during 2005, due to bonding for the Law Enforcement Center/Jail.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The unemployment rate for Wilkin County at the end of 2005 was 3.7 percent. This compares favorably with the state unemployment rate of 4.0 percent and shows a decrease from the 3.8 percent rate of one year ago.

By the end of 2005, Wilkin County approved its balanced 2006 revenue and expenditure budgets.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Wilkin County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to: Wilkin County Auditor, 300 South 5th Street, Breckenridge, Minnesota 56520.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 1

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

Assets

Cash and pooled investments	\$ 8,238,683
Taxes receivable	
Current - net	36,166
Prior - net	11,711
Special assessments receivable	
Current - net	1,791
Prior - net	200
Noncurrent - net	189,568
Accounts receivable - net	87,249
Accrued interest receivable	55,572
Due from other governments	870,967
Inventories	186,795
Capital assets	
Non-depreciable	3,088,230
Depreciable - net of accumulated depreciation	33,539,784
	<hr/>
Total Assets	\$ 46,306,716

Liabilities

Accounts payable	\$ 334,988
Salaries payable	33,106
Contracts payable	707,872
Due to other governments	103,390
Accrued interest payable	91,295
Unearned revenue	935,174
Long-term liabilities	
Due within one year	180,535
Due in more than one year	3,803,056
	<hr/>
Total Liabilities	\$ 6,189,416

Net Assets

Invested in capital assets - net of related debt	\$ 35,107,439
Restricted for	
General government	34,497
Public safety	1,022,505
Highways and streets	251,441
Economic development	100,000
Held in trust for other purposes	3,604
Unrestricted	3,597,814
	<hr/>
Total Net Assets	\$ 40,117,300

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 2

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

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,456,607	\$ 215,401	\$ 32,347	\$ -	\$ (1,208,859)
Public safety	894,386	53,811	116,477	-	(724,098)
Highways and streets	3,872,513	345,356	3,191,905	471,998	136,746
Sanitation	310,954	244,608	118,187	-	51,841
Human services	2,561,913	290,552	1,025,548	-	(1,245,813)
Health	649,041	206,962	135,023	-	(307,056)
Culture and recreation	51,321	-	-	-	(51,321)
Conservation of natural resources	320,377	6,150	189,347	-	(124,880)
Economic development	800	-	-	-	(800)
Interest	131,913	-	-	-	(131,913)
Total governmental activities	\$ 10,249,825	\$ 1,362,840	\$ 4,808,834	\$ 471,998	\$ (3,606,153)
General Revenues					
Property taxes					\$ 3,331,431
Gravel taxes					7,390
Payments in lieu of tax					23,799
Grants and contributions not restricted to specific programs					1,129,261
Investment income					227,311
Total general revenues					\$ 4,719,192
Change in net assets					\$ 1,113,039
Net Assets - Beginning					39,004,261
Net Assets - Ending					\$ 40,117,300

FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Law Enforcement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash and pooled investments	\$ 4,077,693	\$ 322,682	\$ 365,444	\$ 2,875,900	\$ 529,373	\$ 8,171,092
Petty cash and change funds	2,750	100	-	-	5,000	7,850
Undistributed cash in agency funds	27,511	11,226	12,230	-	8,774	59,741
Taxes receivable						
Current	17,064	8,245	8,972	-	1,885	36,166
Prior	5,479	2,715	2,849	-	668	11,711
Special assessments receivable						
Current	-	-	-	-	1,791	1,791
Prior	-	-	-	-	200	200
Noncurrent	-	-	-	-	189,568	189,568
Accounts receivable	9,576	41,284	2,447	-	33,942	87,249
Accrued interest receivable	27,949	-	-	27,623	-	55,572
Due from other funds	9,632	8,528	-	-	8,229	26,389
Due from other governments	21,918	674,110	96,935	-	77,441	870,404
Inventories	-	186,795	-	-	-	186,795
Total Assets	<u>\$ 4,199,572</u>	<u>\$ 1,255,685</u>	<u>\$ 488,877</u>	<u>\$ 2,903,523</u>	<u>\$ 856,871</u>	<u>\$ 9,704,528</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Law Enforcement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 45,436	\$ 160,685	\$ 107,707	\$ 11,767	\$ 9,393	\$ 334,988
Salaries payable	2,434	13,186	13,987	-	3,499	33,106
Contracts payable	-	46,503	-	661,369	-	707,872
Due to other funds	294	57	13,947	962	10,566	25,826
Due to other governments	36,641	24,496	34,803	-	7,450	103,390
Deferred revenue - unavailable	15,614	516,580	7,934	-	267,707	807,835
Deferred revenue - unearned	-	935,174	-	-	-	935,174
Total Liabilities	\$ 100,419	\$ 1,696,681	\$ 178,378	\$ 674,098	\$ 298,615	\$ 2,948,191
Fund Balances						
Reserved for						
Encumbrances	\$ -	\$ 233,896	\$ -	\$ 3,250,304	\$ -	\$ 3,484,200
Inventories	-	186,795	-	-	-	186,795
Sheriff's contingency	1,626	-	-	-	-	1,626
Real estate tax shortfall	21,330	-	-	-	-	21,330
Gravel pit restoration	-	-	-	-	17,545	17,545
Missing heirs	3,604	-	-	-	-	3,604
Economic development	100,000	-	-	-	-	100,000
Law library	1,295	-	-	-	-	1,295
Recorder's equipment purchases	11,872	-	-	-	-	11,872
Unreserved						
Designated for future expenditures	1,423,248	-	-	-	-	1,423,248
Designated for cash flows	1,613,320	-	-	-	-	1,613,320
Undesignated	922,858	(861,687)	310,499	(1,020,879)	-	(649,209)
Unreserved, reported in nonmajor special revenue funds	-	-	-	-	540,711	540,711
Total Fund Balances	\$ 4,099,153	\$ (440,996)	\$ 310,499	\$ 2,229,425	\$ 558,256	\$ 6,756,337
Total Liabilities and Fund Balances	\$ 4,199,572	\$ 1,255,685	\$ 488,877	\$ 2,903,523	\$ 856,871	\$ 9,704,528

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2005**

Fund balances - total governmental funds (Exhibit 3)	\$ 6,756,337
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.	36,628,014
Revenues in the statement of activities that do not provide current financial resources are not reported in the governmental funds.	807,835
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
General obligation bonds	\$ (3,750,000)
Compensated absences	(233,591)
Accrued interest payable	(91,295)
	(4,074,886)
Net assets of governmental activities (Exhibit 1)	<u>\$ 40,117,300</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 5

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Law Enforcement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Taxes	\$ 1,589,306	\$ 758,709	\$ 819,009	\$ -	\$ 173,661	\$ 3,340,685
Special assessments	-	-	-	-	210,018	210,018
Licenses and permits	8,885	-	-	-	650	9,535
Intergovernmental	681,013	3,702,647	1,314,049	-	315,806	6,013,515
Charges for services	185,529	252,668	130,614	-	290,182	858,993
Fines and forfeits	12,239	-	4,380	-	-	16,619
Gifts and contributions	-	-	480	-	-	480
Interest on investments	138,790	-	-	88,521	-	227,311
Miscellaneous	62,559	49,351	155,558	-	180,496	447,964
Total Revenues	\$ 2,678,321	\$ 4,763,375	\$ 2,424,090	\$ 88,521	\$ 1,170,813	\$ 11,125,120
Expenditures						
Current						
General government	\$ 1,432,537	\$ -	\$ -	\$ -	\$ 567	\$ 1,433,104
Public safety	902,245	-	-	-	-	902,245
Highways and streets	-	5,056,886	-	-	-	5,056,886
Sanitation	-	-	-	-	290,142	290,142
Human services	-	-	2,561,523	-	-	2,561,523
Health	3,864	-	-	-	643,402	647,266
Culture and recreation	51,321	-	-	-	-	51,321
Conservation of natural resources	157,037	-	-	-	51,903	208,940
Economic development	800	-	-	-	-	800
Intergovernmental						
Highways and streets	-	252,580	-	-	-	252,580
Conservation of natural resources	-	-	-	-	110,346	110,346
Capital outlay	-	-	-	1,598,613	-	1,598,613
Debt service						
Bond issuance costs	-	-	-	67,264	-	67,264
Total Expenditures	\$ 2,547,804	\$ 5,309,466	\$ 2,561,523	\$ 1,665,877	\$ 1,096,360	\$ 13,181,030
Excess of Revenues Over (Under) Expenditures	\$ 130,517	\$ (546,091)	\$ (137,433)	\$ (1,577,356)	\$ 74,453	\$ (2,055,910)
Other Financing Sources (Uses)						
Transfers in	\$ -	\$ -	\$ -	\$ 54,724	\$ -	\$ 54,724
Transfers out	(54,724)	-	-	-	-	(54,724)
Bonds and notes issued	-	-	-	3,750,000	-	3,750,000
Premium on bonds issued	-	-	-	26,646	-	26,646
Total Other Financing Sources (Uses)	\$ (54,724)	\$ -	\$ -	\$ 3,831,370	\$ -	\$ 3,776,646

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

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**EXHIBIT 5
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Law Enforcement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Net Change in Fund Balance	\$ 75,793	\$ (546,091)	\$ (137,433)	\$ 2,254,014	\$ 74,453	\$ 1,720,736
Fund Balance - January 1	4,023,360	125,299	447,932	(24,589)	483,803	5,055,805
Increase (decrease) in reserved for inventories	<u>-</u>	<u>(20,204)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(20,204)</u>
Fund Balance - December 31	<u>\$ 4,099,153</u>	<u>\$ (440,996)</u>	<u>\$ 310,499</u>	<u>\$ 2,229,425</u>	<u>\$ 558,256</u>	<u>\$ 6,756,337</u>

**WILKIN COUNTY
BRECKENRIDGE, 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, 2005**

Net change in fund balances - total governmental funds (Exhibit 5) **\$ 1,720,736**

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 revenues between the fund statements and the statement of activities is the increase (decrease) in revenues deferred as unavailable.

Deferred revenue - December 31	\$ 807,835	
Deferred revenue - January 1	(570,091)	237,744

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. Also, 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 sales increase financial resources. Therefore, the change in net assets differs from the change in fund balance by the net book value of the capital assets disposed of.

Expenditures for general capital assets and infrastructure	\$ 4,343,737	
Net book value of assets disposed of	(16,000)	
Current year depreciation	(1,316,975)	3,010,762

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Bonds issued	(3,750,000)
--------------	-------------

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	\$ (91,295)	
Change in compensated absences	5,296	
Change in inventories	(20,204)	(106,203)

Change in net assets of governmental activities (Exhibit 2) **\$ 1,113,039**

FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

EXHIBIT 7

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

Assets

Cash and pooled investments	\$ 150,490
Due from other governments	<u>2,064</u>
Total Assets	<u>\$ 152,554</u>

Liabilities

Due to other funds	\$ 563
Due to other governments	138,162
Funds held in trust	<u>13,829</u>
Total Liabilities	<u>\$ 152,554</u>

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

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

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2005. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board 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

Wilkin County was established March 6, 1868, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in joint ventures, jointly-governed organizations, and related organizations, which are described in Notes 5.D., 5.E., and 5.F., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

In the government-wide statement of governmental net assets, the governmental activities: (a) are presented on a consolidated basis; and (b) are reported on a full accrual, economic resource basis that recognizes all long-term assets and

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

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 revenue. Direct expenses are those clearly identifiable with a specific function or activity. Program revenue 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. Revenue not classified as program revenue, including all taxes, are presented as general revenue.

2. Fund Financial Statements

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

The County reports the following major governmental funds:

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

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

The Law Enforcement Capital Project Fund is used to account for financial resources to be used for the construction of the Law Enforcement Center.

Additionally, the County reports the following fund type:

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

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue 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 revenue in the year for which they are levied. Shared revenue are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue are recognized as soon as they are both measurable and available. Wilkin County considers all revenue 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.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$138,790.

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

2. Receivables and Payables

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

All receivables 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 on 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.

**WILKIN COUNTY
BRECKENRIDGE, 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. Inventories at the government-wide level are recorded as expenses when consumed.

4. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. During the current period, the County did not have any capitalized interest.

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Building improvements	20 - 35
Public domain infrastructure	15 - 75
Furniture, equipment, and vehicles	3 - 15

5. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Compensated Absences (Continued)

who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

6. Deferred Revenue

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

7. Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

In the fund financial statements the face amount of the debt issued is reported as an other financing source.

8. Fund Equity

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

9. Use of Estimates

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

9. Use of Estimates (Continued)

and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

The following major fund had a deficit fund balance as of December 31, 2005:

Road and Bridge Special Revenue Fund	<u>\$ 440,996</u>
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The Road and Bridge fund balance deficit will be eliminated through future tax levies.

B. Excess of Expenditures Over Budget

	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 2,547,804	\$ 2,546,558	\$ 1,246
Special Revenue Funds			
Road and Bridge	5,309,466	4,981,200	328,266
Environmental	295,790	289,585	6,205
Public Health Nurse	643,402	611,646	31,756

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Governmental activities	
Cash and pooled investments	\$ 8,238,683
Fiduciary funds	
Cash and pooled investments	
Agency funds	<u>150,490</u>
Total Cash and Investments	<u>\$ 8,389,173</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

a. Deposits

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

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

Custodial Credit Risk

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

b. Investments

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;

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

- (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.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The County minimizes its exposure to interest rate risk by investing in both shorter and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the County's policy to invest only in securities that meet the ratings requirement 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 that are in the possession of an outside party. The County does not have a policy on custodial credit risk.

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the County's investment in a single issuer. It is the County's policy that U.S. Treasury securities, U.S. Agency Securities, and obligations backed by U.S. Treasury and/or U.S. Agency securities, may be held without limit.

The following table presents the County's investment balances at December 31, 2005, and information relating to potential investment risks:

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	
U.S. Government agency securities					
Federal National Mortgage Association	AAA	S&P	<5%	11/1/08	\$ 24,867
Federal Home Loan Mortgage Corporation	AAA	S&P		2/25/08	\$ 198,730
Federal Home Loan Mortgage Corporation	AAA	S&P		9/15/13	98,658
Federal Home Loan Mortgage Corporation	AAA	S&P		6/15/20	6,587
Total Federal Home Loan Mortgage Corporation			<5%		\$ 303,975

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	(Fair) Value
U.S. Government agency securities (Continued)					
Federal Home Loan Bank	AAA	S&P		11/9/07	\$ 98,846
Federal Home Loan Bank	Aaa	Moody's		7/29/08	368,486
Federal Home Loan Bank	Aaa	Moody's		8/26/09	172,391
Federal Home Loan Bank	Aaa	Moody's		10/29/09	98,125
Federal Home Loan Bank	Aaa	Moody's		6/12/13	195,110
Federal Home Loan Bank	AAA	S&P		6/26/13	97,527
Federal Home Loan Bank	AAA	S&P		6/26/13	167,566
Federal Home Loan Bank	Aaa	Moody's		7/16/13	95,605
Total Federal Home Loan Bank			18.8%		\$ 1,293,656
Investment pools/mutual funds					
MAGIC Fund			N/A		\$ 2,408,803
Negotiable certificates of deposit					
			N/A		\$ 2,839,638
Total investments					\$ 6,870,939
Deposits					1,510,384
Change funds					7,850
Total Cash and Investments					\$ 8,389,173

N/A – Not Applicable

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

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities, including the applicable allowances for uncollectible accounts, are as follows:

	Total Receivables	Amounts Not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Taxes	\$ 47,877	\$ -
Special assessments	191,559	189,568
Accounts	87,249	-
Interest	55,572	-
Due from other governments	870,967	-
Total Governmental Activities	\$ 1,253,224	\$ 189,568

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

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

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 1,068,995	\$ -	\$ 16,000	\$ 1,052,995
Construction in progress	191,662	1,861,771	18,198	2,035,235
Total capital assets not depreciated	\$ 1,260,657	\$ 1,861,771	\$ 34,198	\$ 3,088,230
Capital assets depreciated				
Improvements other than buildings	\$ 61,043	\$ -	\$ -	\$ 61,043
Buildings	2,136,210	-	-	2,136,210
Machinery, furniture, and equipment	3,913,671	362,678	113,684	4,162,665
Infrastructure	41,935,007	2,137,486	-	44,072,493
Total capital assets depreciated	\$ 48,045,931	\$ 2,500,164	\$ 113,684	\$ 50,432,411
Less: accumulated depreciation for				
Improvements other than buildings	\$ 9,157	\$ 4,069	\$ -	\$ 13,226
Buildings	849,732	45,408	-	895,140
Machinery, furniture, and equipment	2,757,231	271,255	113,684	2,914,802
Infrastructure	12,073,216	996,243	-	13,069,459
Total accumulated depreciation	\$ 15,689,336	\$ 1,316,975	\$ 113,684	\$ 16,892,627
Total capital assets depreciated, net	\$ 32,356,595	\$ 1,183,189	\$ -	\$ 33,539,784
Governmental Activities Capital Assets, Net	\$ 33,617,252	\$ 3,044,960	\$ 34,198	\$ 36,628,014

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

General government	\$ 33,855
Public safety	51,497
Highways and streets, including depreciation of infrastructure assets	1,188,139
Human services	7,262
Health	9,585
Sanitation	25,585
Conservation of natural resources	1,052
Total Depreciation Expense	<u>\$ 1,316,975</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road and Bridge Fund	\$ 57
	Human Services Fund	6,012
	Law Enforcement Capital Project Fund	962
	Other governmental funds	2,038
	Agency funds	563
		<u>9,632</u>
Total Due to General Fund		\$ 9,632
Road and Bridge Fund	Other governmental funds	\$ 8,528
Other governmental funds	General Fund	\$ 294
	Human Services Fund	7,935
		<u>8,229</u>
Total Due to Other Governmental Funds		\$ 8,229
Total Due To/From Other Funds		<u><u>\$ 26,389</u></u>

The outstanding balances between the funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

2. Interfund Transfers

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

Transfer to Law Enforcement Capital Project Fund from General Fund	<u>\$ 54,724</u>	Provide funds for project construction
---	------------------	---

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	Governmental Activities
Accounts	\$ 334,988
Salaries	33,106
Contracts	707,872
Due to other governments	103,390
	<hr/>
Total Payables	\$ 1,179,356

2. Deferred Revenue

Deferred revenue as of December 31, 2005, for the County is as follows:

	Deferred Unavailable	Deferred Unearned
Taxes and special assessments	\$ 225,921	\$ -
State-aid highway allotments	286,852	935,174
Charges for services	178,056	-
Grants	117,006	-
	<hr/>	<hr/>
Total Deferred Revenue	\$ 807,835	\$ 935,174

3. Construction Commitments

The government has active construction projects as of December 31, 2005. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental activities		
Roads and bridges	\$ 90,081	\$ 233,896
Law enforcement center	1,329,702	3,250,304

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

4. Long-Term Debt

Type of Indebtedness	Final Maturity	Installment Amounts	Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2005
General Obligation Bonds					
2005 G.O. Jail Bonds	2021	\$195,000 - \$325,000	3.99	<u>\$ 3,750,000</u>	<u>\$ 3,750,000</u>

5. Debt Service Requirements

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

Year Ending December 31	General Obligation Bonds	
	Principal	Interest
2006	\$ -	\$ 182,590
2007	195,000	142,660
2008	200,000	135,747
2009	205,000	128,404
2010	215,000	120,529
2011 - 2015	1,180,000	474,000
2016 - 2020	1,430,000	216,233
2021	325,000	6,744
Total	<u>\$ 3,750,000</u>	<u>\$ 1,406,907</u>

6. Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Long-Term Liabilities					
Bonds payable					
General obligation bonds	\$ -	\$ 3,750,000	\$ -	\$ 3,750,000	\$ -
Compensated absences	<u>238,886</u>	<u>328,374</u>	<u>333,669</u>	<u>233,591</u>	<u>180,535</u>
Long-Term Liabilities	<u>\$ 238,886</u>	<u>\$ 4,078,374</u>	<u>\$ 333,669</u>	<u>\$ 3,983,591</u>	<u>\$ 180,535</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Plan Description (Continued)

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

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

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

Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The County makes annual contributions to the pension plans equal to the amount required by the state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members were required to contribute 9.10 and 5.10 percent, respectively, of their annual covered salary in 2005. Contribution rates in the Coordinated Plan increased in 2006 to 5.5 percent. Public Employees Police and Fire Fund members were required to contribute 6.20 percent of their annual covered salary in 2005. That rate increased to 7.00 percent in 2006. Public Employees Correctional Fund members are required to contribute 5.83 percent of their annual covered salary.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

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

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

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

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>	<u>Public Employees Correctional Fund</u>
2005	\$ 160,175	\$ 27,905	\$ 883
2004	153,480	25,528	-
2003	152,638	22,437	-

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

B. Defined Contribution Plan

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

B. Defined Contribution Plan (Continued)

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minn. Stat. § 353D.03 specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes five percent of salary, which is matched by the employer.

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

The County's contributions for the years ending December 31, 2005, 2004, and 2003 were \$867, \$715, and \$727, respectively, equal to the contractually required contributions for each year as set by state statute.

5. Summary of Significant Contingencies and Other Items

A. Risk Management

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

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

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

A. 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.

B. Claims and Litigation

The County, in connection with the normal conduct of its affairs, is involved in various claims, judgments, and litigation. The County Attorney estimates that the potential claims against the County not covered by insurance resulting from such litigation would not materially affect the financial statements.

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.

D. Joint Ventures

Area Agency on Aging

The Area Agency on Aging was established June 2, 1982, by a joint powers agreement among Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin Counties. The agreement was established to administer all aspects of the Older Americans Act by providing programs to meet the needs of the elderly in the nine-county area. Each county may be assessed a proportional share of 25 percent of the administrative costs incurred in carrying out this agreement. Each county's proportional share of this 25 percent of the administrative costs will be based upon the number of persons age 60 or older living within that county.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Area Agency on Aging (Continued)

Any county may withdraw by providing notice to the chair of the Board 90 days prior to the beginning of the fiscal year. The chair shall forward a copy to each of the counties. Withdrawal shall not act to discharge any liability incurred or chargeable to any county before the effective date of withdrawal.

Control is vested in the West Central Board on Aging. The Board consists of one County Commissioner from each of the counties. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Complete financial statements for the Area Agency on Aging can be obtained from its administrative office, P. O. Box 726, Fergus Falls, Minnesota 56537.

Wilkin County Children's Collaborative

The Wilkin County Children's Collaborative was established in 1997, under the authority of the Joint Powers Act, pursuant to Minn. Stat. §§ 471.59 and 124D.23. The Collaborative includes Wilkin County; Wilkin County Family Service Agency; Wilkin County Public Health Nursing Service; Wilkin County Courts Services; Independent School District Nos. 846, 850, and 852; St. Mary School; St. Francis Medical Center/Hope Unit; and Clay-Wilkin Opportunity Council/Head Start. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Wilkin County Children's Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party.

In the event of a withdrawal from the Wilkin County Children's Collaborative, the withdrawing party shall give a 90-day notice. The withdrawing party shall not be entitled to a refund of monies contributed to the Collaborative prior to the effective date of withdrawal. The Board shall continue to exist if the Collaborative is terminated for the limited purpose of discharging the Board's debts and liabilities, settling its affairs, and disposing of its remaining property.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

D. Joint Ventures

Wilkin County Children's Collaborative (Continued)

Financing is provided by state grants and appropriations and contributions from its member parties. Wilkin County, in an agent capacity, reports the cash transactions of the Wilkin County Children's Collaborative as an agency fund on its financial statements. During 2005, the County did not contribute any funds to the Collaborative.

E. Jointly-Governed Organizations

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

Buffalo-Red River Watershed District

The Buffalo-Red River Watershed District was formed pursuant to Minn. Stat. §§ 103D.201-.231, effective June 17, 1963, and includes land within Becker, Clay, and Wilkin Counties. The purpose of the District is to conserve the natural resources of the state by land-use planning, flood control, and other conservation projects by using sound scientific principles for the protection of the public health and welfare and the provident use of natural resources. Control of the District is vested in the Buffalo-Red River Watershed District Board of Managers, which is composed of five members having staggered terms of three years each, with three appointed by the Clay County Board, one appointed by the Becker County Board, and one appointed by the Wilkin County Board.

Western Area City/County Co-Op

Wilkin County and 24 other cities and counties entered into a joint powers agreement to establish the Western Area City/County Co-Op (WACCO) Joint Powers Board, effective September 5, 1995, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to establish a resource network that identifies common needs of the individual governmental units and reduces the financial burden on each of its members through the cooperative sharing of existing resources. The management and control of WACCO shall be vested in a Board of Directors composed of a representative appointed by each member city and county.

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

5. Summary of Significant Contingencies and Other Items

E. Jointly-Governed Organizations (Continued)

District IV Transportation Planning

Wilkin County and 13 other cities and counties entered into a joint powers agreement to establish the District IV Transportation Planning Joint Powers Board, effective December 11, 1996, and empowered under Minn. Stat. § 471.59. The purpose of the Board is to develop a multi-modal transportation plan for the geographical jurisdiction of the member cities and counties. The Board is composed of 14 members, with one member appointed by each member city and county.

Agassiz Regional Library

The Agassiz Regional Library was formed pursuant to Minn. Stat. §§ 134.20 and 471.59, effective January 1, 1981, and includes Becker, Clay, Clearwater, Mahnomon, Norman, Polk, and Wilkin Counties. Control of the Library is vested in the Agassiz Regional Library with 23 members with staggered terms made up of the following: one member appointed by each Board of County Commissioners who may be a member of the Board of Commissioners, one member appointed by each participating city, and one additional member appointed by each county and city for each 6,000 of population or major percentage (85 percent) thereof. In 2005, Wilkin County provided \$40,421 in the form of an appropriation.

F. Related Organization

Bois De Sioux Watershed District

Wilkin County and the Bois De Sioux Watershed District entered into a joint powers agreement for the purpose of providing for the repair and maintenance of Wilkin County Ditch No. 8, which lies outside the present boundaries of the Bois De Sioux Watershed District, effective November 19, 1991, and authorized under Minn. Stat. § 103D.335, subds. 2 and 21.

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REQUIRED SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,761,708	\$ 1,761,708	\$ 1,589,306	\$ (172,402)
Licenses and permits	5,850	5,850	8,885	3,035
Intergovernmental	441,427	441,427	681,013	239,586
Charges for services	139,273	139,273	185,529	46,256
Fines and forfeits	-	-	12,239	12,239
Investment earnings	150,000	150,000	138,790	(11,210)
Miscellaneous	25,500	25,500	62,559	37,059
Total Revenues	\$ 2,523,758	\$ 2,523,758	\$ 2,678,321	\$ 154,563
Expenditures				
Current				
General government				
Commissioners	\$ 129,276	\$ 129,276	\$ 129,546	\$ (270)
Law library	-	-	16,645	(16,645)
County auditor	237,839	237,839	241,864	(4,025)
County treasurer	168,007	168,007	166,020	1,987
County assessor	186,787	186,787	189,645	(2,858)
Elections	39,000	39,000	417	38,583
Accounting and auditing	30,000	30,000	43,591	(13,591)
Data processing	76,900	76,900	59,412	17,488
Attorney	152,513	152,513	158,319	(5,806)
Recorder	153,845	153,845	149,512	4,333
Planning and zoning	5,250	5,250	4,244	1,006
Buildings and plant	104,524	104,524	97,209	7,315
Veterans service officer	51,053	51,053	50,254	799
Unallocated	133,206	133,206	125,859	7,347
Total general government	\$ 1,468,200	\$ 1,468,200	\$ 1,432,537	\$ 35,663
Public safety				
Sheriff	\$ 770,554	\$ 770,554	\$ 751,737	\$ 18,817
Coroner	5,700	5,700	4,150	1,550
E-911 system	-	-	15,849	(15,849)
County jail	-	-	19,252	(19,252)
Probation and parole	57,530	57,530	75,149	(17,619)
Civil defense	10,000	10,000	36,108	(26,108)
Total public safety	\$ 843,784	\$ 843,784	\$ 902,245	\$ (58,461)
Health				
Aging grant	\$ 1,000	\$ 1,000	\$ 864	\$ 136
Rural life outreach	3,000	3,000	3,000	-
Total health	\$ 4,000	\$ 4,000	\$ 3,864	\$ 136

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Expenditures				
Current (Continued)				
Culture and recreation				
Historical society	\$ 9,000	\$ 9,000	\$ 9,000	\$ -
Regional library	40,421	40,421	40,421	-
Celebrations	900	900	400	500
Other	1,000	1,000	1,500	(500)
Total culture and recreation	\$ 51,321	\$ 51,321	\$ 51,321	\$ -
Conservation of natural resources				
Cooperative extension	\$ 100,171	\$ 100,171	\$ 79,053	\$ 21,118
Soil and water conservation	52,173	52,173	52,173	-
Agricultural society/County fair	10,000	10,000	10,000	-
Weed control	15,809	15,809	15,811	(2)
Total conservation of natural resources	\$ 178,153	\$ 178,153	\$ 157,037	\$ 21,116
Economic development				
Community development	\$ 1,100	\$ 1,100	\$ 800	\$ 300
Total Expenditures	\$ 2,546,558	\$ 2,546,558	\$ 2,547,804	\$ (1,246)
Excess of Revenues Over (Under)				
Expenditures	\$ (22,800)	\$ (22,800)	\$ 130,517	\$ 153,317
Other Financing Sources (Uses)				
Transfers out	-	-	(54,724)	(54,724)
Net Change in Fund Balance	\$ (22,800)	\$ (22,800)	\$ 75,793	\$ 98,593
Fund Balance - January 1	4,023,360	4,023,360	4,023,360	-
Fund Balance - December 31	\$ 4,000,560	\$ 4,000,560	\$ 4,099,153	\$ 98,593

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
ROAD AND BRIDGE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 842,876	\$ 842,876	\$ 758,709	\$ (84,167)
Intergovernmental	3,578,124	3,578,124	3,702,647	124,523
Charges for services	205,200	205,200	252,668	47,468
Miscellaneous	55,000	55,000	49,351	(5,649)
Total Revenues	\$ 4,681,200	\$ 4,681,200	\$ 4,763,375	\$ 82,175
Expenditures				
Current				
Highways and streets				
Administration	\$ 272,259	\$ 272,259	\$ 257,339	\$ 14,920
Maintenance	1,011,179	1,011,179	936,160	75,019
Construction	2,926,470	2,926,470	2,785,777	140,693
Equipment and maintenance shops	640,051	640,051	815,579	(175,528)
Material and services for resale	-	-	23,822	(23,822)
Federal disaster	-	-	120,614	(120,614)
Unallocated	131,241	131,241	117,595	13,646
Total highways and streets	\$ 4,981,200	\$ 4,981,200	\$ 5,056,886	\$ (75,686)
Intergovernmental				
Highways and streets	-	-	252,580	(252,580)
Total Expenditures	\$ 4,981,200	\$ 4,981,200	\$ 5,309,466	\$ (328,266)
Excess of Revenues Over (Under) Expenditures	\$ (300,000)	\$ (300,000)	\$ (546,091)	\$ (246,091)
Fund Balance - January 1	125,299	125,299	125,299	-
Increase (decrease) in reserved for inventories	-	-	(20,204)	(20,204)
Fund Balance - December 31	\$ (174,701)	\$ (174,701)	\$ (440,996)	\$ (266,295)

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
HUMAN SERVICES FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 1,092,511	\$ 1,092,511	\$ 819,009	\$ (273,502)
Intergovernmental	1,298,976	1,298,976	1,314,049	15,073
Charges for services	99,476	99,476	130,614	31,138
Fines and forfeits	-	-	4,380	4,380
Gifts and contributions	-	-	480	480
Miscellaneous	141,625	141,625	155,558	13,933
Total Revenues	\$ 2,632,588	\$ 2,632,588	\$ 2,424,090	\$ (208,498)
Expenditures				
Current				
Human services				
Income maintenance	\$ 649,813	\$ 649,813	\$ 607,579	\$ 42,234
Social services	1,982,775	1,982,775	1,953,944	28,831
Total Expenditures	\$ 2,632,588	\$ 2,632,588	\$ 2,561,523	\$ 71,065
Excess of Revenues Over (Under)				
Expenditures	\$ -	\$ -	\$ (137,433)	\$ (137,433)
Fund Balance - January 1	447,932	447,932	447,932	-
Fund Balance - December 31	\$ 447,932	\$ 447,932	\$ 310,499	\$ (137,433)

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch and Gravel Tax Reserve Special Revenue Funds and the Law Enforcement Capital Project Fund. All annual appropriations lapse at fiscal year-end.

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

The appropriated budget is prepared by fund, function, and department. The County's department head may make transfers of appropriations within a department. Transfers of appropriations between departments require approval of the County Board. The legal level of budgetary control (the level at which expenditures may not legally exceed appropriations) is the fund level. During the year, the Board made no budgetary amendments. Encumbrance accounting is employed in governmental funds.

Encumbrances (such as purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reapportioned and honored during the subsequent year.

2. Excess of Expenditures Over Appropriations

For the year ended December 31, 2005, expenditures exceeded appropriations in the General Fund by \$1,246 and in the Road and Bridge Special Revenue Fund by \$328,266. These expenditures in excess of budget were funded by greater than anticipated revenues in the General Fund and greater revenues of highway user tax in the Road and Bridge Special Revenue Fund.

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SUPPLEMENTARY INFORMATION

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Ditch Fund - to account for the financial transactions of the County drainage systems. Financing is provided by special assessments levied against benefited property owners.

Environmental Fund - to account for the financial transactions of providing environmental services. Financing is provided by special assessments, charges for services, and intergovernmental revenues designated for environmental purposes.

Gravel Tax Reserve Fund - to account for the proceeds of a special gravel removal or occupation tax restricted to expenditures for the restoration of abandoned gravel pits.

Public Health Nurse Fund - to account for providing nursing service care to the elderly and other residents of the County. Financing is provided by health care service grants, County contributions, and user service charges.

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement A-1

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

	<u>Ditch</u>	<u>Environmental</u>	<u>Gravel Tax Reserve</u>	<u>Public Health Nurse</u>	<u>Total Nonmajor Governmental Funds (Exhibit 3)</u>
<u>Assets</u>					
Cash and pooled investments	\$ 122,381	\$ 144,398	\$ 17,200	\$ 245,394	\$ 529,373
Petty cash and change funds	-	5,000	-	-	5,000
Undistributed cash in agency funds	3,221	3,042	-	2,511	8,774
Taxes receivable					
Current	-	45	-	1,840	1,885
Prior	-	15	-	653	668
Special assessments					
Current	1,791	-	-	-	1,791
Prior	200	-	-	-	200
Noncurrent	189,568	-	-	-	189,568
Accounts receivable	-	6,287	345	27,310	33,942
Due from other funds	-	-	-	8,229	8,229
Due from other governments	-	-	-	77,441	77,441
Total Assets	\$ 317,161	\$ 158,787	\$ 17,545	\$ 363,378	\$ 856,871
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ -	\$ 3,552	\$ -	\$ 5,841	\$ 9,393
Salaries payable	-	-	-	3,499	3,499
Due to other funds	8,475	110	-	1,981	10,566
Due to other governments	2,122	4,290	-	1,038	7,450
Deferred revenue - unavailable	190,824	3,895	-	72,988	267,707
Total Liabilities	\$ 201,421	\$ 11,847	\$ -	\$ 85,347	\$ 298,615
Fund Balances					
Reserved for gravel pit restoration	\$ -	\$ -	\$ 17,545	\$ -	\$ 17,545
Unreserved					
Undesignated	115,740	146,940	-	278,031	540,711
Total Fund Balances	\$ 115,740	\$ 146,940	\$ 17,545	\$ 278,031	\$ 558,256
Total Liabilities and Fund Balances	\$ 317,161	\$ 158,787	\$ 17,545	\$ 363,378	\$ 856,871

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement A-2

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

	<u>Ditch</u>	<u>Environmental</u>	<u>Gravel Tax Reserve</u>	<u>Public Health Nurse</u>	<u>Total Nonmajor Governmental Funds (Exhibit 5)</u>
Revenues					
Taxes	\$ -	\$ 4,155	\$ 1,418	\$ 168,088	\$ 173,661
Special assessments	210,018	-	-	-	210,018
Licenses and permits	-	650	-	-	650
Intergovernmental	-	120,090	-	195,716	315,806
Charges for services	-	104,715	-	185,467	290,182
Miscellaneous	6,150	139,243	-	35,103	180,496
Total Revenues	\$ 216,168	\$ 368,853	\$ 1,418	\$ 584,374	\$ 1,170,813
Expenditures					
Current					
General government	\$ 567	\$ -	\$ -	\$ -	\$ 567
Sanitation	-	290,142	-	-	290,142
Health	-	-	-	643,402	643,402
Conservation of natural resources	46,255	5,648	-	-	51,903
Intergovernmental					
Conservation of natural resources	110,346	-	-	-	110,346
Total Expenditures	\$ 157,168	\$ 295,790	\$ -	\$ 643,402	\$ 1,096,360
Net Change in Fund Balance	\$ 59,000	\$ 73,063	\$ 1,418	\$ (59,028)	\$ 74,453
Fund Balance - January 1	56,740	73,877	16,127	337,059	483,803
Fund Balance - December 31	\$ 115,740	\$ 146,940	\$ 17,545	\$ 278,031	\$ 558,256

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
ENVIRONMENTAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 4,572	\$ 4,572	\$ 4,155	\$ (417)
Licenses and permits	1,000	1,000	650	(350)
Intergovernmental	83,928	83,928	120,090	36,162
Charges for services	105,500	105,500	104,715	(785)
Miscellaneous	92,000	92,000	139,243	47,243
Total Revenues	\$ 287,000	\$ 287,000	\$ 368,853	\$ 81,853
Expenditures				
Current				
Sanitation				
Solid waste	\$ 174,335	\$ 174,335	\$ 171,448	\$ 2,887
Recycling	103,250	103,250	118,694	(15,444)
Total sanitation	\$ 277,585	\$ 277,585	\$ 290,142	\$ (12,557)
Conservation of natural resources				
Water planning	12,000	12,000	5,648	6,352
Total Expenditures	\$ 289,585	\$ 289,585	\$ 295,790	\$ (6,205)
Net Change in Fund Balance	\$ (2,585)	\$ (2,585)	\$ 73,063	\$ 75,648
Fund Balance - January 1	73,877	73,877	73,877	-
Fund Balance - December 31	\$ 71,292	\$ 71,292	\$ 146,940	\$ 75,648

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 5

**BUDGETARY COMPARISON SCHEDULE
PUBLIC HEALTH NURSE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Taxes	\$ 186,499	\$ 186,499	\$ 168,088	\$ (18,411)
Intergovernmental	140,893	140,893	195,716	54,823
Charges for services	254,654	254,654	185,467	(69,187)
Miscellaneous	29,600	29,600	35,103	5,503
Total Revenues	\$ 611,646	\$ 611,646	\$ 584,374	\$ (27,272)
Expenditures				
Current				
Health				
Nursing service	611,646	611,646	643,402	(31,756)
Net Change in Fund Balance	\$ -	\$ -	\$ (59,028)	\$ (59,028)
Fund Balance - January 1	337,059	337,059	337,059	-
Fund Balance - December 31	\$ 337,059	\$ 337,059	\$ 278,031	\$ (59,028)

FIDUCIARY FUNDS

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Statement B-1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>CHILDREN'S COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 138,537	\$ 67,133	\$ 137,264	\$ 68,406
Due from other governments	1,909	2,064	1,909	2,064
Total Assets	<u>\$ 140,446</u>	<u>\$ 69,197</u>	<u>\$ 139,173</u>	<u>\$ 70,470</u>
<u>Liabilities</u>				
Due to other governments	<u>\$ 140,446</u>	<u>\$ 69,197</u>	<u>\$ 139,173</u>	<u>\$ 70,470</u>
<u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 9,918</u>	<u>\$ 436,223</u>	<u>\$ 423,789</u>	<u>\$ 22,352</u>
<u>Liabilities</u>				
Due to other funds	\$ -	\$ 4,384	\$ 3,821	\$ 563
Due to other governments	9,918	431,839	419,968	21,789
Total Liabilities	<u>\$ 9,918</u>	<u>\$ 436,223</u>	<u>\$ 423,789</u>	<u>\$ 22,352</u>
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	<u>\$ 57,741</u>	<u>\$ 2,547,432</u>	<u>\$ 2,545,441</u>	<u>\$ 59,732</u>
<u>Liabilities</u>				
Due to other governments	\$ 50,457	\$ 2,533,603	\$ 2,538,157	\$ 45,903
Funds held in trust	7,284	13,829	7,284	13,829
Total Liabilities	<u>\$ 57,741</u>	<u>\$ 2,547,432</u>	<u>\$ 2,545,441</u>	<u>\$ 59,732</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**Statement B-1
(Continued)**

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 206,196	\$ 3,050,788	\$ 3,106,494	\$ 150,490
Due from other governments	1,909	2,064	1,909	2,064
Total Assets	<u>\$ 208,105</u>	<u>\$ 3,052,852</u>	<u>\$ 3,108,403</u>	<u>\$ 152,554</u>
<u>Liabilities</u>				
Due to other funds	\$ -	\$ 4,384	\$ 3,821	\$ 563
Due to other governments	200,821	3,034,639	3,097,298	138,162
Funds held in trust	7,284	13,829	7,284	13,829
Total Liabilities	<u>\$ 208,105</u>	<u>\$ 3,052,852</u>	<u>\$ 3,108,403</u>	<u>\$ 152,554</u>

OTHER SCHEDULES

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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 6

**SCHEDULE OF DEPOSITS AND INVESTMENTS
DECEMBER 31, 2005**

	Interest Rate (%)	Maturity Date	Fair Value
Pooled Deposits and Investments			
Interest-bearing checking accounts (2)	Variable	Continuous	\$ 62,214
Money market savings accounts (2)	Variable	Continuous	835,340
Certificates of deposit (8)	2.60 to 4.11	January 13, 2006 to May 6, 2008	612,830
Brokerage certificates of deposit (30)	3.50 to 5.20	January 9, 2006 to December 20, 2012	2,839,638
Minnesota Association of Governments Investing for Counties Fund	Variable	Continuous	2,408,803
Federal National Mortgage Association	5.50	November 1, 2008	24,867
Federal Home Loan Mortgage Corporation (3)	3.00 to 8.00	February 25, 2008 to June 15, 2020	303,975
Federal Home Loan Bank (8)	2.00 to 4.38	November 9, 2007 to July 16, 2013	1,293,656
Total Pooled Deposits and Investments			<u>\$ 8,381,323</u>

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**BALANCE SHEET - BY DITCH
DITCH SPECIAL REVENUE FUND
DECEMBER 31, 2005**

	Assets				
	Cash	Undistributed Cash	Special Assessments Receivable		
			Current	Delinquent	Deferred
County Ditches					
1A	\$ 2,458	\$ -	\$ -	\$ -	\$ -
1B	5,585	165	-	-	-
1C	3,137	-	-	-	-
2	7,024	-	4	-	-
3	5,920	267	500	-	20,001
4	8,206	-	-	186	-
6	2,314	42	4	-	20,001
7	7,990	-	-	-	-
12	2,022	-	-	-	-
15	5,993	68	-	-	-
23	6,228	-	-	-	-
27	5,451	4	173	-	-
28	1,222	-	-	-	5,001
29	568	-	-	-	5,000
31	19,461	553	457	-	-
34	5,713	-	-	-	-
37	3,054	-	-	-	-
Bois De Sioux Watershed					
8	-	203	23	-	-
9	-	145	-	-	2,801
10	-	22	2	3	3,300
39	-	-	-	-	1,700
Buffalo-Red River Watershed					
5	-	218	-	-	10,000
13 lateral	-	50	38	-	30,000
22	-	148	70	-	10,002
26	-	-	-	2	3,000
40	-	90	1	-	-
41	-	385	136	-	10,002
42 1 yr	-	467	163	-	15,000
42 10 yr	-	152	-	-	6,290
43	-	-	-	5	5,001
44	-	42	133	-	10,002
Joint Ditches					
County					
J-2	30,035	-	-	-	-
Bois De Sioux Watershed					
J-4	-	-	-	2	-
J-6	-	-	-	-	2,213
J-7	-	11	2	1	1,267
J-11	-	39	3	-	10,907
J-12	-	5	-	1	2,579
Sub-drainage Ditch 1	-	-	-	-	5,501
Buffalo-Red River Watershed					
J-1	-	145	82	-	10,000
Total	\$ 122,381	\$ 3,221	\$ 1,791	\$ 200	\$ 189,568

Schedule 7

Liabilities and Fund Balances							
Total	Liabilities			Total	Fund Balances	Total Liabilities and Fund Balances	
	Due to Other Funds	Due to Other Governments	Deferred Revenue				
\$ 2,458	\$ 110	\$ -	\$ -	\$ 110	\$ 2,348	\$ 2,458	
5,750	-	-	-	-	5,750	5,750	
3,137	149	-	-	149	2,988	3,137	
7,028	-	-	4	4	7,024	7,028	
26,688	2,621	-	20,423	23,044	3,644	26,688	
8,392	3,196	-	186	3,382	5,010	8,392	
22,361	1,872	-	20,006	21,878	483	22,361	
7,990	-	-	-	-	7,990	7,990	
2,022	-	-	-	-	2,022	2,022	
6,061	-	-	-	-	6,061	6,061	
6,228	527	-	-	527	5,701	6,228	
5,628	-	-	-	-	5,628	5,628	
6,223	-	-	5,001	5,001	1,222	6,223	
5,568	-	-	5,000	5,000	568	5,568	
20,471	-	-	392	392	20,079	20,471	
5,713	-	-	-	-	5,713	5,713	
3,054	-	-	-	-	3,054	3,054	
226	-	203	-	203	23	226	
2,946	-	145	2,801	2,946	-	2,946	
3,327	-	22	3,300	3,322	5	3,327	
1,700	-	-	1,700	1,700	-	1,700	
10,218	-	218	10,000	10,218	-	10,218	
30,088	-	50	30,027	30,077	11	30,088	
10,220	-	147	10,002	10,149	71	10,220	
3,002	-	-	3,002	3,002	-	3,002	
91	-	91	-	91	-	91	
10,523	-	385	10,113	10,498	25	10,523	
15,630	-	466	15,000	15,466	164	15,630	
6,442	-	152	6,290	6,442	-	6,442	
5,006	-	-	5,006	5,006	-	5,006	
10,177	-	42	10,099	10,141	36	10,177	
30,035	-	-	-	-	30,035	30,035	
2	-	-	2	2	-	2	
2,213	-	-	2,213	2,213	-	2,213	
1,281	-	11	1,270	1,281	-	1,281	
10,949	-	39	10,907	10,946	3	10,949	
2,585	-	6	2,579	2,585	-	2,585	
5,501	-	-	5,501	5,501	-	5,501	
10,227	-	145	10,000	10,145	82	10,227	
\$ 317,161	\$ 8,475	\$ 2,122	\$ 190,824	\$ 201,421	\$ 115,740	\$ 317,161	

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 8

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Shared Revenue

State

Highway users tax	\$ 3,199,770
County program aid	740,031
PERA rate reimbursement	14,876
Disparity reduction aid	10,415
Police aid	25,528
Market value credit	360,613
Market value credit - mobile home	3,326

Total Shared Revenue	\$ 4,354,559
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Reimbursement for Services

State

Minnesota Department of Human Services	\$ 485,800
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Payments

Local

Payments in lieu of taxes	\$ 23,799
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Grants

Local

Local	\$ 838
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State

Minnesota Department of	
Corrections	\$ 11,678
Public Safety	59,064
Health	53,960
Human Services	337,770
Water and Soil Resources Board	69,108
Peace Officer Standards and Training Board	2,115
Office of Environmental Assistance	49,079

Total State	\$ 582,774
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Federal

Department of	
Agriculture	\$ 31,869
Transportation	246,679
Health and Human Services	287,197

Total Federal	\$ 565,745
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Total Local, State, and Federal Grants	\$ 1,149,357
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Total Intergovernmental Revenue	\$ 6,013,515
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**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 9

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2005**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of Wilkin County.
- B. A reportable condition in internal control was disclosed by the audit of financial statements of Wilkin County and is 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*." The reportable condition is not a material weakness.
- C. No instances of noncompliance material to the financial statements of Wilkin 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 Wilkin 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
Public Assistance Grant	CFDA #97.036
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. Wilkin County was not 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

96-4 **Segregation of Duties**

Due to the limited number of personnel within several Wilkin County offices, segregation of accounting duties necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Wilkin 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 internal control point of view.

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

Client's Response:

The County recognizes the finding and, due to economics, shall assume the risks.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

IV. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

01-2 Credit Card Policy

The County does not have a credit card policy. Minn. Stat. § 375.171 authorizes and restricts the use of credit cards by counties. Pursuant to the language of the statute, county credit cards should be used only by those officers and employees of the county otherwise authorized to make county purchases. Use of the credit card is restricted to purchases for the county; therefore, no personal use is permitted. The statute further provides that if officers and employees make purchases for the county not authorized by the county board, they become personally liable for the amount of the purchase.

Minn. Stat. § 375.171 further requires that the use of a credit card must be consistent with other state law. For example, Minn. Stat. § 375.17, subd. 2, requires the publishing of an itemized account of amounts paid out, to whom, and for what purpose, to the extent that the published proceedings of the county board do not contain the information. If the publishing of disbursements is required, the actual vendors (not the credit card company) providing the goods and services to the county must be identified. The bills received from a credit card company may lack sufficient detail to comply with that statutory section. Therefore, the county must also have the invoices and receipts needed to support the items charged in the bill from the credit card company.

Further, the use of credit cards would require the county board to act in compliance with Minn. Stat. ch. 475. This statutory chapter governs the issuance of debt by public entities and details a number of restrictions attached to the issuance of an obligation. Minn. Stat. § 375.171 was not intended to be another method of creating debt for the county but was intended to authorize another type of payment method. Therefore, it is incumbent on counties to adopt a policy of paying off credit card charges on a monthly basis. This statute does not authorize the creation of a new form of debt for the county.

In addition to the statutory restrictions on the use of credit cards, we recommend that the County Board develop a comprehensive credit card policy providing other safeguards for the County. A comprehensive policy should:

- identify the officers and employees who are authorized to make purchases on behalf of the County and are eligible to use the card,
- identify the particular purchases to be made with the credit card,
- set up a review process for all purchases made with the credit card,
- prohibit the use of a County credit card for personal purposes, and
- require supporting documentation.

The County Board may also want to restrict the total amount of charges that can be made on County credit cards. This will help limit the County's exposure to theft or other improper use.

Client's Response:

The County Auditor and Treasurer will complete a policy as soon as possible.

B. MANAGEMENT PRACTICES

ITEMS ARISING THIS YEAR

05-1 Road and Bridge Fund Balance Deficit

At December 31, 2005, the Road and Bridge Special Revenue Fund had a fund balance deficit of \$440,996.

While this fund had a favorable cash balance of \$334,008 at December 31, 2005, the deficit fund balance resulted from the completion of construction projects funded through advance payments of future state allotments. These allotments will be recognized as revenue when the state makes the 2006 appropriation.

We recommend the County Board monitor the financial activities of the Road and Bridge Special Revenue Fund to determine if ongoing conditions exist that affect the financial condition of the fund.

Client's Response:

No comment.

05-2

Departmental Collections and Receivables

In Wilkin County, most collections are deposited directly with the County Treasurer. The County does, however, have some decentralized departments that collect fees, which are held by those departments and deposited with the County Treasurer at a later date.

During our review of decentralized departments, we noted that in two of the three departments tested, receipts are not logged or written at the time money is collected. The recording of the collections was done at a later time. We also noted that the receivable ledger for one of the departments contained receivables for services dating back to 1992. The department has subsequently reviewed its receivables, and the Board has provided approval to write off the old receivables as non-collectible.

Management is responsible for adopting sound accounting policies, establishing and maintaining effective internal control, and for preventing and detecting fraud. Most decentralized departments are aware of the need to receipt collections and remit timely to the County Treasurer; however, the County does not have formal written policies and established procedures that cover decentralized billings and collections.

We recommend the County establish formal policies and procedures to ensure all collections are receipted at the time of collection and that receivables are reviewed at least annually. If a receivable is determined to be non-collectible, Board approval should be obtained to write off the non-collectible amounts.

Client's Response:

County officials will work towards establishing a policy and procedures for receipt of collections and an annual review of receivables.

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, like what GASB Statements 25 and 27 did for government employee pension benefits and plans, provide the accounting and reporting standards for the various other postemployment benefits many local governments offer to their employees. OPEB can include many different benefits offered to retirees such as health, dental, life, and long-term care insurance coverage.

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

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

Schedule 9
(Continued)

- 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 Wilkin County, GASB Statements 43 and 45 would be implemented for years ending December 31, 2008 and 2009, respectively.

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PATRICIA ANDERSON
STATE AUDITOR

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
Wilkin County

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Wilkin County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 96-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the

financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition indicated above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Wilkin 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, Wilkin County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Questioned Costs as item 01-2.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 29, 2006



PATRICIA ANDERSON
STATE AUDITOR

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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
Wilkin County

Compliance

We have audited the compliance of Wilkin 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, 2005. Wilkin County's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Wilkin 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, Wilkin 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, 2005.

Internal Control Over Compliance

The management of Wilkin 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 and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Wilkin County as of and for the year ended December 31, 2005, and have issued our report thereon dated June 29, 2006. 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 whole.

This report is intended solely for the information and use of the Board of County Commissioners, management, 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/Pat Anderson

PATRICIA ANDERSON
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 29, 2006

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

Schedule 10

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through Minnesota Department of Health and Clay-Wilkin Community Health Services Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	\$ 26,562
Passed Through Minnesota Department of Human Services State Administrative Matching Grants for the Food Stamp Program	10.561	4,147
Total U.S. Department of Agriculture		\$ 30,709
U.S. Department of Transportation		
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	\$ 240,000
State and Community Highway Safety	20.600	6,679
Total U.S. Department of Transportation		\$ 246,679
U.S. Department of Health and Human Services		
Passed Through Minnesota Department of Health and West Central Area Agency on Aging Title III-B Special Programs for the Aging	93.044	\$ 13,750
Passed Through Minnesota Department of Health and Clay-Wilkin Community Health Services Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	19,141
Maternal and Child Health Services Block Grant	93.994	12,310
Passed Through Minnesota Department of Human Services Promoting Safe and Stable Families	93.556	6,436
Temporary Assistance for Needy Families (TANF)	93.558	71,125
Child Care Mandatory and Matching Funds	93.596	84,408
Child Welfare Services - State Grants	93.645	307
Foster Care Title IV-E	93.658	1,654
Social Services Block Grant Title XX	93.667	60,344
Chafee Foster Care Independent Living	93.674	3,600
Community Mental Health Services Block Grant	93.958	5,660

**WILKIN COUNTY
BRECKENRIDGE, MINNESOTA**

**Schedule 10
(Continued)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Health and Human Services (Continued)		
Direct		
Drug-Free Communities Support Program	93.276	8,462
Total U.S. Department of Health and Human Services		\$ 287,197
U.S. Department of Homeland Security		
Passed Through Minnesota Department of Public Safety		
Public Assistance Grants	97.036	\$ 93,873
Total Federal Awards		\$ 658,458

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 Wilkin County.
The County's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on this schedule are on the modified accrual basis of accounting.
3. Pass-through grant numbers were not assigned by the pass-through agencies.