

**NOBLES COUNTY
WORTHINGTON, MINNESOTA**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED DECEMBER 31, 2006

NOBLES COUNTY
WORTHINGTON, MINNESOTA
TABLE OF CONTENTS
DECEMBER 31, 2006

INTRODUCTORY SECTION	
ORGANIZATION	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	4
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS	16
STATEMENT OF ACTIVITIES	17
BALANCE SHEET – GOVERNMENTAL FUNDS	18
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES	22
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	23
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	25
STATEMENT OF FIDUCIARY NET ASSETS – AGENCY FUNDS	26
NOTES TO FINANCIAL STATEMENTS	27
REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A	
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	55
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – PUBLIC WORKS SPECIAL REVENUE FUND	57
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – FAMILY SERVICES SPECIAL REVENUE FUND	59
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – JUSTICE CENTER DEBT SERVICE FUND	60
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION	61

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
TABLE OF CONTENTS (CONTINUED)
DECEMBER 31, 2006**

FINANCIAL SECTION (CONTINUED)

SUPPLEMENTARY INFORMATION

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS	62
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS	63
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – DITCH SPECIAL REVENUE FUND	64
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – BUILDING SPECIAL REVENUE FUND	65
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – LIBRARY SPECIAL REVENUE FUND	66
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES – ALL AGENCY FUNDS	67
SCHEDULE OF INTERGOVERNMENTAL REVENUE	69

REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS* AND SINGLE AUDIT (A-133)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	70
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	72
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	74
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	78
REPORT ON MINNESOTA LEGAL COMPLIANCE	80

INTRODUCTORY SECTION

NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 ORGANIZATION
 DECEMBER 31, 2006

Office	Name	Term Expires
Commissioners		
1st District	Marvin Zylstra*	January 2007
2nd District	Diane Thier	January 2009
3rd District	David Benson	January 2007
4th District	Norm Gallagher	January 2007
5th District	Vern Leistico	January 2009
Officers		
Elected		
Attorney	Gordon Moore	January 2007
Auditor-Treasurer	Sharon A. Balster	January 2007
Recorder	Lynn Wilson	January 2007
Sheriff	Kent Wilkening	January 2007
Appointed		
County Administrator	Melvin Ruppert	Indefinite
Assessor	Byron A. Swart	Indefinite
Highway Engineer	Stephen Schnieder	Indefinite

* = Chair 2006



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of County Commissioners
Nobles County
Worthington, Minnesota

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County, as of and for the year ended December 31, 2006, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nobles 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Nobles County, as of December 31, 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 27, 2007, on our consideration of Nobles County's internal control over financial reporting and 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.

Board of County Commissioners
Nobles County

The management's discussion and analysis and budgetary comparison information on pages 4 to 15 and 55 to 60, respectively, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. 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 Nobles 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. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations* and is also not a required part of the basic financial statements. The supplementary information and the schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



LarsonAllen LLP

Brainerd, Minnesota
July 27, 2007

This Page Has Been Left Blank Intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

This section of the Nobles County's annual financial report presents our discussion and analysis of the County's financial performance during the fiscal year that ended December 31, 2006. The Management's Discussion and Analysis (MD&A) is a new element of the Required Supplementary Information specified in the Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Certain comparative information between the current year, 2006, and the prior year, 2005, is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- County-wide net assets increased 4.8 percent in 2006 over the prior year due primarily to its investments in capital assets.
- Overall governmental fund-level revenues totaled \$19,516,461 and were \$49,137 more than expenditures in 2006, this is primarily due to increase in fees for services.
- The General Fund's fund balance decreased \$125,488 from the prior year as a result of additional capital outlay over the prior year, investments in economic development, and over expenditures in the public safety area.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the County:

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

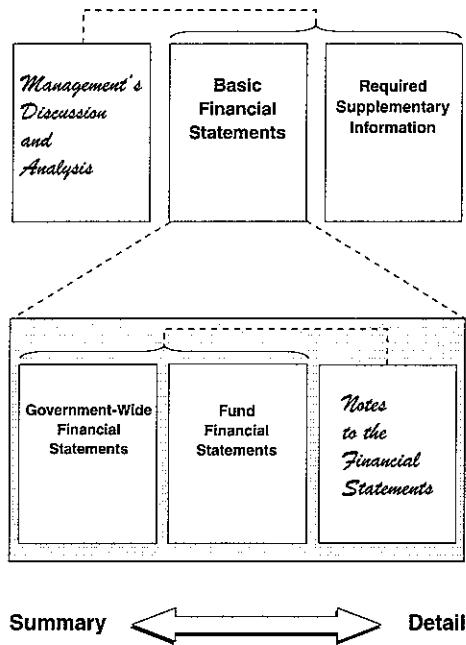
**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

**Figure A-1
Annual Report Format**



**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the County's financial statements, including the portion of the County's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

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

County-Wide Statements

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED DECEMBER 31, 2006**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

County-Wide Statements (Continued)

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

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

The county-wide financial statements have been divided into two kinds of activities:

- *Governmental Activities* – The County's basic services are included here. Property taxes and state aid finance most of these activities.
- *Component Units* – The County includes two legally separate entities in its report, the Nobles-Rock Public Health Services and Rock-Nobles Community Corrections. Although legally separate, these "component units" are important because the County is financially accountable for them. In addition, these component units have separately issued financial statements.

Fund Financial Statements

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

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

The County has two kinds of funds:

- *Governmental Funds* – The County's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the County's programs. Because this information does not encompass the additional long-term focus of the county-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary Funds* – The County is the fiscal agent, or fiduciary, for assets that belong to others. The County is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the County's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the county-wide financial statements because the County cannot use these assets to finance its operations.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

Net Assets

The County's total net assets were \$65,677,229 on December 31, 2006, an increase of \$3,017,135 from the prior year. The main reason for this increase is the County's investment in capital assets (see Table A-1).

Table A-1
 The County's Net Assets

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Current and Other Assets	\$ 25,156,756	\$ 23,358,696
Capital Assets	65,552,819	65,406,390
Total Assets	<u>90,709,575</u>	<u>88,765,086</u>
Current Liabilities	2,481,826	2,035,957
Long-Term Liabilities	22,550,520	24,069,035
Total Liabilities	<u>25,032,346</u>	<u>26,104,992</u>
Net Assets		
Invested in Capital Assets		
Net of Related Debt	43,220,062	48,242,872
Restricted	8,863,032	8,621,457
Unrestricted	13,594,135	5,795,765
Total Net Assets	<u>\$ 65,677,229</u>	<u>\$ 62,660,094</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

CHANGE IN NET ASSETS

The County-wide total revenues were \$21,568,753 for the year ended December 31, 2006 (a decrease of \$2,270,905). This decrease is primarily attributable to a decrease in highway user tax revenues. Property taxes and intergovernmental revenues accounted for 68% of total revenue for the year (see Table A-2).

Table A-2
 Change in Net Assets

	Governmental Activities		Total % Change
	2006	2005	
REVENUES			
<u>Program Revenues</u>			
Charges for Services	\$ 1,928,292	\$ 2,964,011	(34.9)%
Operating Grants and Contributions	4,896,603	5,185,952	(5.6)
Capital Grants and Contributions	2,589,131	5,619,773	(53.9)
<u>General Revenues</u>			
Property Taxes	7,146,159	6,862,895	4.1
Other	5,008,568	3,207,027	56.2
Total Revenues	<u>21,568,753</u>	<u>23,839,658</u>	(9.5)
EXPENSES			
General Government	4,392,132	3,444,234	27.5
Public Safety	3,073,955	3,530,717	(12.9)
Highways and Streets	3,553,183	3,489,828	1.8
Sanitation	593,864	328,073	-
Human Services	5,265,980	4,642,070	13.4
Health	183,966	119,799	53.6
Culture and Recreation	637,473	649,234	(1.8)
Conservation of Natural Resources	420,539	265,910	58.2
Economic Development	254,416	479,318	(46.9)
Interest	176,110	1,321,310	(86.7)
Total Expenses	<u>18,551,618</u>	<u>18,270,493</u>	1.5
CHANGE IN NET ASSETS	3,017,135	5,569,165	(45.8)
Net Assets - Beginning of Year	<u>62,660,094</u>	<u>57,090,929</u>	9.8
NET ASSETS - END OF YEAR	<u>\$ 65,677,229</u>	<u>\$ 62,660,094</u>	4.8

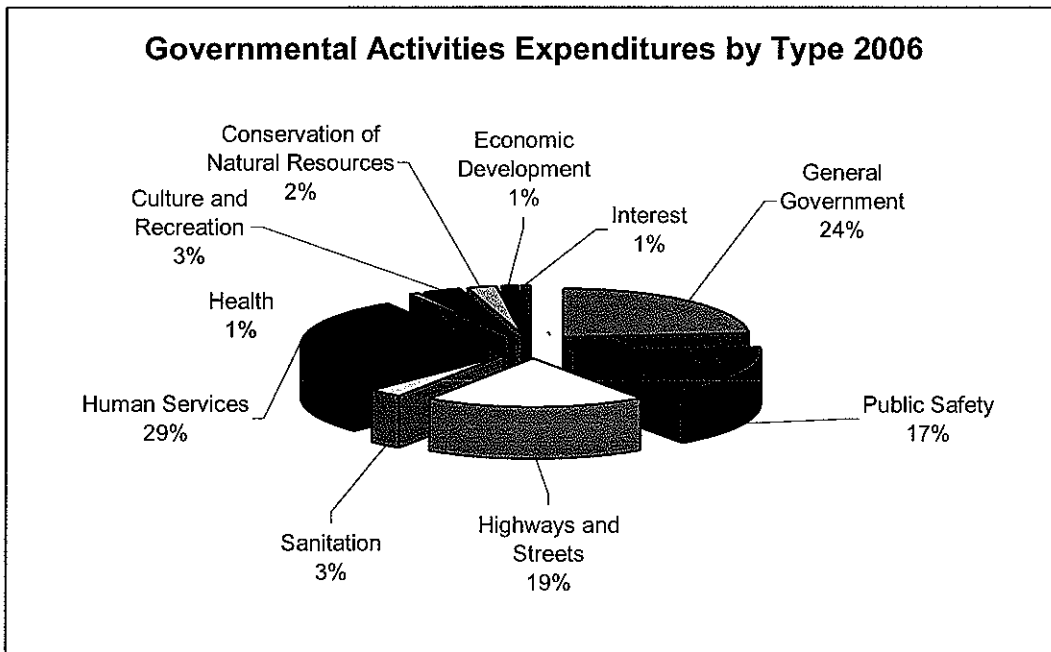
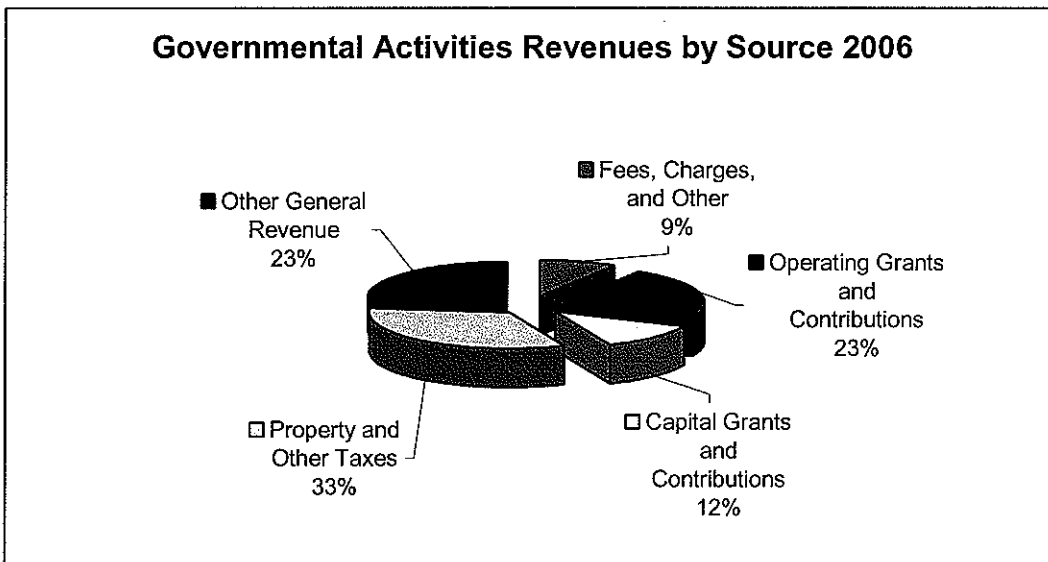
Total revenues surpassed expenses, increasing net assets \$3,017,135 over last year.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

CHANGE IN NET ASSETS (CONTINUED)

The County-wide cost of all governmental activities this year was \$18,551,618.

- Some of the cost was paid by the users of the County's programs (\$1,928,292).
- The federal and state governments subsidized certain programs with grants and contributions (\$7,485,734).
- The remainder of the County's governmental activities costs (\$9,137,592) was paid for by taxpayers. This portion of governmental activities and the increase in net assets was covered by \$7,146,159 in property taxes, \$2,581,313 of state aid, and \$741,782 in investment earnings and other general revenues.



**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

CHANGE IN NET ASSETS (CONTINUED)

Table A-3 presents the cost of each of the County's program function, as well as each function's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the County's taxpayers by each of these functions.

Table A-3
 Expenses and Net (Revenue) Cost of Services

	Total Cost of Services		Percentage Change	Net (Revenue) Cost of Services		Percentage Change
	2006	2005		2006	2005	
GOVERNMENTAL ACTIVITIES						
General Government	\$ 4,392,132	\$ 3,444,234	27.5 %	\$ 3,505,318	\$ 2,269,848	54.4 %
Public Safety	3,073,955	3,530,717	(12.9)	2,270,100	2,389,282	(5.0)
Highways and Streets	3,553,183	3,489,828	1.8	(464,610)	(1,346,361)	(65.5)
Sanitation	593,864	328,073	81.0	88,600	(164,310)	(153.9)
Human Services	5,265,980	4,642,070	13.4	2,274,159	1,590,422	43.0
Health	183,966	119,799	53.6	183,966	119,799	53.6
Culture and Recreation	637,473	649,234	(1.8)	541,269	573,002	(5.5)
Conservation of Natural Resources	420,539	265,910	58.2	308,264	126,707	143.3
Economic Development	254,416	479,318	(46.9)	254,416	(2,378,942)	(110.7)
Interest	176,110	1,321,310	(86.7)	176,110	1,321,310	(86.7)
Total	<u>\$ 18,551,618</u>	<u>\$ 18,270,493</u>	1.5	<u>\$ 9,137,592</u>	<u>\$ 4,500,757</u>	103.0

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL

The financial performance of the County as a whole is reflected in its governmental funds as well. As the County completed the year, its governmental funds reported a combined fund balance of \$19,968,905. Revenues for the County's governmental funds were \$19,516,461, while total expenditures were \$19,467,324.

The General Fund includes the primary operations of the County in providing services to citizens. The General Fund balance decreased by \$125,488 during 2006. The total decrease consists primarily of increased investment earnings of \$281,632 and increased expenditures in the economic development and public safety areas.

The Public Works Fund has a total fund balance of \$2,313,606, 51% is set aside for resource conservation and development.

The Family Services Fund revenue and expenditures were both under budget during 2006, this resulted in a fund balance decrease of \$123,126 during 2006.

The Jail Center Debt Service Fund increased its fund balance by \$914,912 over 2005, which is due primarily to increased tax collections and increased investment earnings.

The following schedule presents a summary of General Fund Revenues:

Table A-4
 General Fund Revenues

Fund	Year Ended		Change	
	December 31, 2006	December 31, 2005	Increase (Decrease)	Percent
Taxes	\$ 3,264,605	\$ 3,766,820	\$ (502,215)	(13.3)%
Intergovernmental	2,193,984	2,026,545	167,439	8.3
Charges for Services	997,472	1,169,962	(172,490)	(14.7)
Gifts and Contributions	-	2,848,407	(2,848,407)	(100.0)
Interest	531,632	388,910	142,722	36.7
Miscellaneous and Other	315,312	907,102	(591,790)	(65.2)
Total General Fund Revenues	\$ 7,303,005	\$ 11,107,746	\$ (3,804,741)	(34.3)

Total General Fund revenues decreased by \$3,804,741, or 34.3%, from the previous year due primarily to a decrease in the gifts and contributions and tax revenues in 2006.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

FINANCIAL ANALYSIS OF THE COUNTY AT THE FUND LEVEL (CONTINUED)

The following schedule presents a summary of General Fund Expenditures:

Table A-5
 General Fund Expenditures

	Year Ended		Change	
	December 31, 2006	December 31, 2005	Increase (Decrease)	Percent
General Government	\$ 3,404,845	\$ 2,956,724	\$ 448,121	15.2 %
Public Safety	2,904,399	2,869,114	35,285	1.2
Health	-	2,500	(2,500)	(100.0)
Culture and Recreation	106,016	103,912	2,104	2.0
Conservation	101,710	90,397	11,313	12.5
Economic Development	254,416	479,318	(224,902)	(46.9)
Intergovernmental	288,440	212,671	75,769	35.6
Debt Service	-	4,286,219	(4,286,219)	(100.0)
Capital Outlay	406,985	-	406,985	100.0
Total Expenditures	<u>\$ 7,466,811</u>	<u>\$ 11,000,855</u>	<u>\$ (3,534,044)</u>	<u>(32.1)</u>

The decrease in General Fund expenditures is due primarily to the early repayment of debt in 2005, which was a one time event.

General Fund Budgetary Highlights

Over the course of the year, the revised the annual operating budget for the General Fund for additional information technology projects and other minor adjustments. In general, the does not make a significant amount of budget amendments during the year.

- Actual revenues were \$110,214 more than expected; this is primarily due to increase intergovernmental revenues and investment earnings.
- The actual expenditures were \$224,741 more than budget, this is primarily due to increased expenditures of \$192,176 in the public safety area.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

CAPITAL ASSETS AND DEBT ADMINISTRATION

The County did not have any construction projects in 2006 other than a number of road projects. In addition, the County did not issue any bonds in 2006.

An annual levy is made to fund the bond payments for all previous bond issues.

CAPITAL ASSETS

By the end of 2006, the County had invested over \$87,000,000 in a broad range of capital assets, including land, buildings, equipment, and infrastructure (see Table A-6). (More detailed information about capital assets can be found in Note 3A to the financial statements). Total depreciation expense for the year was \$2,301,617.

Table A-6
 The County's Capital Assets

	Governmental Activities		Percent Change
	2006	2005	
Land	\$ 1,224,574	\$ 1,129,088	8.5 %
Land Improvements	1,809,186	1,809,186	-
Buildings	23,067,893	23,067,893	-
Machinery and Equipment	5,707,249	4,878,651	17.0
Infrastructure	55,192,882	53,965,875	2.3
Less: Accumulated Depreciation	(21,448,965)	(19,444,303)	10.3
Total	<u>\$65,552,819</u>	<u>\$65,406,390</u>	0.2

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED DECEMBER 31, 2006**

LONG-TERM LIABILITIES

At year-end, the County had \$23,400,554 in long-term liabilities outstanding, including the current portion of long-term debt.

- The County's governmental activities total debt decreased \$668,481, due primarily to the payment on previously issue general obligation bonds and certificates of participation.

Table A-7
 The County's Long-Term Liabilities

	2006	2005	Percentage Change
GOVERNMENTAL ACTIVITIES			
General Obligation Bonds - Net of Discounts	\$17,102,757	\$17,638,074	(3.0)%
Capital Leases	5,230,000	5,450,000	(4.0)
Financial Assurance	275,000	275,000	-
Compensated Absences Payable	792,797	705,961	12.3
Total	\$23,400,554	\$24,069,035	(2.8)

FACTORS BEARING ON THE COUNTY'S FUTURE

The County is dependent on the State of Minnesota for a significant portion of its revenue and for the costs of mandated services.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Melvin J. Ruppert, County Administrator, P.O. Box 757, Worthington, MN 56187.

BASIC FINANCIAL STATEMENTS

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF NET ASSETS
DECEMBER 31, 2006**

	Primary Government	Component Units	
		Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
ASSETS			
Cash and Investments	\$ 14,194,753	\$ 411,598	\$ 118,382
Cash with Fiscal Agent	5,949,646	-	-
Taxes Receivable - Delinquent	74,299	-	-
Special Assessments Receivable	89,635	-	-
Accounts Receivable - Net	72,206	59,221	-
Loans Receivable	6,897	-	-
Accrued Interest Receivable	152,445	-	-
Due from Other Governments	3,997,258	61,213	33,926
Inventory	279,367	-	-
Prepaid Items	58,061	-	13,704
Deferred Charges	282,189	-	-
Non-Depreciable Capital Assets			
Land	1,224,574	-	-
Depreciable Capital Assets - Net of Accumulated Depreciation			
Building	17,938,353	-	-
Improvements Other than Buildings	1,412,411	-	-
Machinery, Vehicles, Furniture, and Equipment	3,221,619	48,257	12,191
Infrastructure	41,755,862	-	-
Total Assets	90,709,575	580,289	178,203
LIABILITIES			
Accounts Payable	343,959	34,665	22,116
Salaries Payable	230,320	50,742	18,800
Contracts Payable	230,967	-	-
Accrued Interest Payable	386,373	-	-
Due to Other Governments	107,347	40,337	1,885
Deferred Revenue - Unearned	332,826	-	-
Compensated Absences Payable - Due Within One Year	60,034	6,870	4,655
General Obligation Bonds Payable - Due Within One Year	560,000	-	-
Capital Lease Payable - Due Within One Year	230,000	-	-
Compensated Absences Payable - Due in More Than One Year	732,763	85,339	47,649
General Obligation Bonds Payable - Due in More Than One Year	16,542,757	-	-
Capital Lease Payable - Due in More Than One Year	5,000,000	-	-
Financial Assurance - Due in More Than One Year	275,000	-	-
Total Liabilities	25,032,346	217,953	95,105
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	43,220,062	48,257	12,191
Restricted For:			
General Government	130,390	-	-
Highways and Streets	221,090	-	-
Public Safety	124,186	-	-
Debt Service	8,387,366	-	-
Unrestricted	13,594,135	314,079	70,907
Total Net Assets	\$ 65,677,229	\$ 362,336	\$ 83,098

See accompanying Notes to the Financial Statements.

This Page Has Been Left Blank Intentionally.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2006**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Fees, Charges, Fines, and Other	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Nobles-Rock Public Health Services	Rock-Nobles Community Corrections
FUNCTIONS/PROGRAMS							
GOVERNMENTAL ACTIVITIES							
General Government	\$ 4,392,132	\$ 649,990	\$ 236,824	\$ -	\$ (3,505,318)	\$ -	\$ -
Public Safety	3,073,955	611,650	192,205	-	(2,270,100)	-	-
Highways and Streets	3,553,183	-	1,438,662	2,579,131	464,610	-	-
Sanitation	593,864	456,185	49,079	-	(88,600)	-	-
Human Services	5,265,980	57,301	2,934,520	-	(2,274,159)	-	-
Health	183,966	-	-	-	(183,966)	-	-
Culture and Recreation	637,473	53,215	42,989	-	(541,269)	-	-
Conservation of Natural Resources	420,539	99,951	2,324	10,000	(308,264)	-	-
Economic Development	254,416	-	-	-	(254,416)	-	-
Interest	176,110	-	-	-	(176,110)	-	-
Total Primary Government	\$ 18,551,618	\$ 1,928,292	\$ 4,896,603	\$ 2,589,131	(9,137,592)	-	-
COMPONENT UNITS							
Nobles-Rock Public Health Services	\$ 1,795,513	\$ 916,084	\$ 623,331	\$ -	(256,098)	-	-
Rock-Nobles Community Corrections	645,950	52,139	416,141	-	-	-	(177,670)
Total Component Units	\$ 2,441,463	\$ 968,223	\$ 1,039,472	\$ -	(256,098)	(256,098)	(177,670)
GENERAL REVENUES							
Property Taxes					7,146,159	-	-
Mortgage Registry and Deed Tax					13,386	-	-
Grants and Contributions not Restricted for a Particular Purpose					2,581,313	305,078	156,712
Investment Earnings					741,782	-	-
Miscellaneous					1,628,830	-	-
Gain on Sale of Capital Assets					43,257	-	-
Total General Revenues					12,154,727	305,078	156,712
CHANGE IN NET ASSETS					3,017,135	48,980	(20,958)
Net Assets - Beginning of Year					62,660,094	313,356	104,056
NET ASSETS - END OF YEAR					\$ 65,677,229	\$ 362,336	\$ 83,098

See accompanying Notes to the Financial Statements.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2006**

ASSETS	<u>General</u>	<u>Public Works</u>	<u>Family Services</u>
Cash and Pooled Investments	\$ 5,315,835	\$ 2,643,703	\$ 2,345,957
Undistributed Cash in Agency Funds	-	11,205	-
Petty Cash and Change Funds	2,175	120	-
Cash with Fiscal Agent	-	-	-
Taxes Receivable			
Delinquent	33,480	9,236	-
Special Assessments Receivable			
Delinquent	-	2,064	15,361
Deferred	-	-	-
Accounts Receivable	15,554	28,809	27,843
Loans Receivable	-	6,897	-
Accrued Interest Receivable	152,445	-	-
Due from Other Funds	9,868	20,582	-
Due from Other Governments	127,180	3,249,807	617,110
Inventories	-	279,367	-
Prepaid Expenditures	56,211	-	-
Total Assets	<u>\$ 5,712,748</u>	<u>\$ 6,251,790</u>	<u>\$ 3,006,271</u>

See accompanying Notes to Financial Statements

Justice Center Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,988,020	\$ 1,880,396	\$ 14,173,911
7,297	-	18,502
-	45	2,340
5,949,646	-	5,949,646
12,987	3,235	58,938
-	663	18,088
-	86,908	86,908
-	-	72,206
-	-	6,897
-	-	152,445
-	-	30,450
-	3,161	3,997,258
-	-	279,367
-	1,850	58,061
<u>\$ 7,957,950</u>	<u>\$ 1,976,258</u>	<u>\$ 24,905,017</u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 BALANCE SHEET (CONTINUED)
 GOVERNMENTAL FUNDS
 DECEMBER 31, 2006**

	General	Public Works	Family Services
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 94,429	\$ 144,053	\$ 104,053
Salaries Payable	106,283	49,774	64,221
Contracts Payable	-	230,967	-
Due to Other Funds	4,285	-	768
Due to Other Governments	81,529	5,781	20,003
Deferred Revenue - Unavailable	33,480	3,232,609	15,361
Deferred Revenue - Unearned	-	-	332,826
Financial Assurance	-	275,000	-
Total Liabilities	320,006	3,938,184	537,232
FUND BALANCES			
Reserved for			
Debt Service	442,561	-	-
Loans Receivable	-	6,897	-
Inventories	-	279,367	-
Prepaid Items	49,265	-	-
Missing Heirs	2,189	-	-
Law Library	26,587	-	-
Recorder's Technology Fund	29,726	-	-
Recorder's Compliance Fund	68,778	-	-
E-911	101,108	-	-
Investments with Fiscal Agents	-	-	-
Sheriff's Contingency	23,078	-	-
Unclaimed Property	3,110	-	-
Highway Allotments	-	221,090	-
Unreserved			
Designated for Capital Equipment	743,709	250,000	114,620
Designated for Insurance Contingencies	1,119,336	-	-
Designated for Out-of-Home Placements	-	-	1,289,990
Designated for Geographic Information Systems	31,647	-	-
Designated for Resource Conservation and Development	-	1,110,000	-
Designated for Extension	28,583	-	-
Designated for Future Revolving Loans	1,085,639	-	-
Undesignated	1,637,426	446,252	1,064,429
Unreserved, Reported in Nonmajor Special Revenue Funds	-	-	-
Total Fund Balances	5,392,742	2,313,606	2,469,039
Total Liabilities and Fund Balances	\$ 5,712,748	\$ 6,251,790	\$ 3,006,271

See accompanying Notes to Financial Statements

<u>Justice Center Debt Service</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 158	\$ 1,266	\$ 343,959
-	10,042	230,320
-	-	230,967
-	25,397	30,450
-	34	107,347
12,987	90,806	3,385,243
-	-	332,826
-	-	275,000
13,145	127,545	4,936,112
1,995,159	-	2,437,720
-	-	6,897
-	-	279,367
-	-	49,265
-	-	2,189
-	-	26,587
-	-	29,726
-	-	68,778
-	-	101,108
5,949,646	-	5,949,646
-	-	23,078
-	-	3,110
-	-	221,090
-	-	1,108,329
-	-	1,119,336
-	-	1,289,990
-	-	31,647
-	-	1,110,000
-	-	28,583
-	-	1,085,639
-	-	3,148,107
-	1,848,713	1,848,713
7,944,805	1,848,713	19,968,905
\$ 7,957,950	\$ 1,976,258	\$ 24,905,017

This Page Has Been Left Blank Intentionally.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 GOVERNMENTAL ACTIVITIES
 DECEMBER 31, 2006**

TOTAL FUND BALANCES FOR GOVERNMENTAL FUNDS	\$ 19,968,905
Total net assets reported for governmental activities in the statement of net assets 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.	65,552,819
Other long-term assets (deferred revenue - unavailable) are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.	3,385,243
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	\$ (11,040,000)
Refunding Bonds	(6,125,000)
Capital Leases	(5,230,000)
Compensated Absences	(792,797)
Accrued Interest Payable	(386,373)
Unamortized Discount on G.O. Bonds	62,243
Deferred Debt Issuance Charges	78,266
Deferred Amount on Refunding Bonds	203,923
	(23,229,738)
TOTAL NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 65,677,229</u></u>

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED DECEMBER 31, 2006**

	General	Public Works	Family Services
REVENUES			
Taxes	\$ 3,264,605	\$ 870,948	\$ 1,419,628
Special Assessments	-	-	-
Licenses and Permits	172,343	98,505	-
Intergovernmental	2,193,984	2,553,244	3,183,107
Charges for Services	997,472	501,586	57,301
Fines and Forfeits	5,931	-	-
Gifts and Contributions	-	-	-
Interest on Investments	531,632	-	-
Miscellaneous	137,038	387,981	473,630
Total Revenues	7,303,005	4,412,264	5,133,666
EXPENDITURES			
CURRENT			
General Government	3,404,845	87,309	-
Public Safety	2,904,399	-	-
Highways and Streets	-	3,679,988	-
Sanitation	-	322,367	-
Human Services	-	-	5,232,436
Culture and Recreation	106,016	122,600	-
Conservation of Natural Resources	101,710	240,115	-
Economic Development	254,416	-	-
INTERGOVERNMENTAL	288,440	287,310	-
CAPITAL OUTLAY	406,985	559,395	24,356
DEBT SERVICE			
Principal	-	-	-
Interest	-	-	-
Administrative (Fiscal) Charges	-	-	-
Total Expenditures	7,466,811	5,299,084	5,256,792
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(163,806)	(886,820)	(123,126)
OTHER FINANCING SOURCES (USES)			
Transfers In	67,868	-	-
Transfers Out	(35,000)	(25,000)	-
Proceeds from Sale of Assets	5,450	-	-
Total Other Financing Sources (Uses)	38,318	(25,000)	-
NET CHANGE IN FUND BALANCES	(125,488)	(911,820)	(123,126)
Fund Balances - Beginning of Year	5,518,230	3,086,442	2,592,165
INCREASE IN RESERVED FOR INVENTORIES	-	138,984	-
FUND BALANCES - END OF YEAR	<u>\$ 5,392,742</u>	<u>\$ 2,313,606</u>	<u>\$ 2,469,039</u>

See accompanying Notes to Financial Statements.

Justice Center Debt Service	Other Governmental Funds	Total Governmental Funds
\$ 1,231,765	\$ 373,705	\$ 7,160,651
-	65,299	65,299
-	-	270,848
128,086	40,232	8,098,653
-	7,814	1,564,173
-	-	5,931
-	876	876
210,150	-	741,782
295,636	313,963	1,608,248
<u>1,865,637</u>	<u>801,889</u>	<u>19,516,461</u>
-	5,167	3,497,321
-	-	2,904,399
-	-	3,679,988
-	-	322,367
-	-	5,232,436
-	415,448	644,064
-	73,297	415,122
-	-	254,416
-	-	575,750
-	-	990,736
760,000	-	760,000
185,902	-	185,902
4,823	-	4,823
<u>950,725</u>	<u>493,912</u>	<u>19,467,324</u>
914,912	307,977	49,137
-	35,000	102,868
-	(42,868)	(102,868)
-	-	5,450
-	(7,868)	5,450
914,912	300,109	54,587
7,029,893	1,548,604	19,775,334
-	-	138,984
<u>\$ 7,944,805</u>	<u>\$ 1,848,713</u>	<u>\$ 19,968,905</u>

This Page Has Been Left Blank Intentionally.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 RECONCILIATION OF THE GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL ACTIVITIES
 YEAR ENDED DECEMBER 31, 2006**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 54,587

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

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

Expenditures for General Capital Assets, Infrastructure, and Other Related Capital Asset Adjustments	\$ 2,337,685	
Proceeds from the Sale of Capital Assets	(5,450)	
Gain on the Sale of Capital Assets	43,257	
Current Year Depreciation	<u>(2,301,617)</u>	73,875

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. 1,988,453

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

Principal Repayments		
General Obligation Bonds	540,000	
Capital Leases	<u>220,000</u>	760,000

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	165,635	
Amortization of discounts, deferred issuance charges, and deferred amounts on refunding bonds	(78,466)	
Change in Compensated Absences	(86,836)	
Change in Inventories	138,984	
Amount of Financial Assurance Liability Funded During the Year	<u>903</u>	<u>140,220</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 3,017,135

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2006**

ASSETS	
Cash and Pooled Investments	\$ 817,016
LIABILITIES	
Accounts Payable	\$ 81,168
Due to Other Governments	735,848
Total Liabilities	\$ 817,016

See accompanying Notes to Financial Statements.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Financial Reporting Entity

Nobles County was established May 23, 1857, is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. As required by accounting principles generally accepted in the United States of America, these financial statements present Nobles County (primary government) and its component units for which the County is financially accountable. There is financial accountability if the Primary Government appoints a voting majority of an organization's governing body and had the ability to impose its will on that governing body; or there is the potential for the organization to provide specific financial benefits or to impose specific financial burden on the primary government. Based on the criteria for determining component units, the County is required to include its component units. 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.

Blended Component Unit

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

Component Unit	Component Unit Reporting Entity Because	Separate Financial Statements
Nobles County Housing and Redevelopment Authority (HRA) provides services pursuant to Minn. Stat. SS 469.001-.047.	County Commissioners are the members of the HRA Board.	Separate financial statements are not prepared.

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Financial Reporting Entity (Continued)

Discretely Presented Component Units

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

Component Unit	Component Unit Reporting Entity Because	Separate Financial Statements
Nobles-Rock Community Health Services provides health services.	County appoints a majority of the Board, and entity is a financial burden to the County.	Nobles-Rock Public Health Services P.O. Box 757 Worthington, MN 56187
Rock-Nobles Community Corrections provides correctional services.	County appoints a majority of the Board, and entity is a financial burden to the County.	Rock-Nobles Community Corrections P.O. Box 757 Worthington, MN 56187

Significant accounting policies of the component units do not differ significantly from those of the County.

Joint Ventures

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

B. Basic Financial Statements

1. Government-Wide Statements

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

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

1. Government-Wide Statements (Continued)

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

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

2. Fund Financial Statements

The fund financial statements provide information about the County's funds, including its fiduciary funds. Separate statements for each fund category--governmental and fiduciary--are presented. The emphasis of governmental fund financial statements is on major individual governmental 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 Public Works 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 roadways and to account for environmental issues.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statements (Continued)

2. Fund Financial Statements (Continued)

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

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

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 holds for others in an agency capacity.

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Nobles County considers all revenues to be available if they are collected within 60 days after the end of the current period. Property and other taxes, licenses, and interest are all considered to be susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general 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, then unrestricted resources as they are needed.

**NOBLES COUNTY
WORTHINGTON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

The County has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the County's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

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

Nobles 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.

3. Receivables and Payables

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

All receivables are shown net of an allowance for uncollectibles which is calculated on a case-by-case basis.

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

**NOBLES COUNTY
 WORTHINGTON, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2006**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

3. Receivables and Payables (Continued)

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

4. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories in the Public Works Fund are recorded as expenditures when purchased rather than when consumed. Inventories at the government-wide level are recorded as expenses when consumed.

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

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (the component units use a cost of more than \$1,500) and an estimated useful life in excess of two years. Such assets are recorded at 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 asset's lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30 - 40
Land Improvements	5 - 20
Public Domain Infrastructure	20 - 80
Furniture, Equipment, and Vehicles	3 - 20