

STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

BIG STONE COUNTY
ORTONVILLE, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2004

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.

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

This document can be made available in alternative formats upon request. Call 651-296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

For the Year Ended December 31, 2004



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

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization		1
Financial Section		
Independent Auditor's Report		2
Management's Discussion and Analysis		4
Basic Financial Statements		
Government-Wide Financial Statements		
Statement of Net Assets	Exhibit 1	13
Statement of Activities	Exhibit 2	14
Fund Financial Statements		
Governmental Funds		
Balance Sheet	Exhibit 3	15
Reconciliation of Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets--Governmental Activities	Exhibit 4	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	Exhibit 5	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Government-Wide Statement of Activities--Governmental Activities	Exhibit 6	19
Fiduciary Funds		
Statement of Fiduciary Net Assets	Exhibit 7	20
Notes to the Financial Statements		21
Required Supplementary Information		
Budgetary Comparison Schedules		
General Fund	Schedule 1	45
Special Revenue Funds		
Highway Fund	Schedule 2	48
Family Services Fund	Schedule 3	49
Ditch Fund	Schedule 4	50
Notes to the Required Supplementary Information		51

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

TABLE OF CONTENTS

	<u>Reference</u>	<u>Page</u>
Financial Section (Continued)		
Supplementary Information		
Agency Funds		
Combining Statement of Changes in Assets and Liabilities	Statement 1	52
Other Schedule		
Schedule of Intergovernmental Revenue	Schedule 5	54
Management and Compliance Section		
Schedule of Findings and Recommendations	Schedule 6	56
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		61

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

ORGANIZATION
DECEMBER 31, 2004

Office	Name	Term Expires
Commissioners		
1st District	Richard Lane	January 2005
2nd District	Wade Athey	January 2007
3rd District	David Torgerson**	January 2005
4th District	Bruce Swigerd*	January 2007
5th District	Alvin Maas	January 2005
Officers		
Elected		
Attorney	William Watson	January 2007
Auditor	Michelle Knutson	January 2007
County Recorder	Gloria Arndt	January 2007
Sheriff	Joseph Berning, Jr.	January 2007
Treasurer	Cindy Nelson	January 2007
Appointed		
Assessor	Sandra Vold	December 2004
Coroner	Robert Ross, M.D.	Indefinite
Environmental Officer	Darren Wilke	Indefinite
Highway Engineer	Nicholas Anderson	May 2005
Veterans Service Officer	Richard Johnson	Indefinite
Human Resources		
Director/Emergency		
Management Director	Darlene Nichols-Born	Indefinite
Family Services		
Board		
Chair	Alvin Maas	January 2005
Vice Chair	Wade Athey	January 2007
Secretary	Kathy Morrill	July 2005
Member	Bruce Swigerd	January 2007
Member	Richard Lane	January 2005
Member	David Torgerson	January 2005
Member	Alice Stielow	July 2006
Director	Daniel Hanratty	Indefinite

*Chair 2005

**Chair 2004

This page was left blank intentionally.

This page was left blank intentionally.



STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Big Stone County

We have audited the basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Big Stone County as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic 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 Big Stone County as of December 31, 2004, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, Big Stone County adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*, as amended, and Statement No. 38, *Certain Financial Statement Note Disclosures*, as of and for the year ended December 31, 2004. These statements result in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules 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 basic financial statements of Big Stone County. The schedule and statement listed as supplementary information in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of Big Stone County. The supporting information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented 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 October 25, 2005, on our consideration of Big Stone 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: October 25, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Management's Discussion and Analysis
December 31, 2004
(Unaudited)

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the County's financial activities for the fiscal year ended December 31, 2004. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Governmental activities' total net assets are \$28,619,011 of which \$21,458,069 is invested in capital assets, net of related debt, and \$266,074 is restricted to specific purposes. The \$6,894,868 remaining may be used to meet the County's ongoing obligations to citizens and creditors.

The County's net assets increased by \$1,917,239 for the year ended December 31, 2004. A large part of the increase is attributable to the County investing in capital assets net of accumulated depreciation without increasing long-term debt.

The net cost of governmental activities for the current fiscal year was \$1,533,066. The net cost was funded by general revenues and other items totaling \$3,450,305.

The fund balances of the governmental funds decreased by \$421,896. Most of the decrease was due to County highway construction projects.

For the year ended December 31, 2004, the unreserved fund balance of the General Fund was \$2,787,142, or 108.8 percent of the total General Fund expenditures for the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the basic financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other required supplementary information.

Government-Wide Financial Statements

The 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 assets and liabilities of the County using the accrual basis of accounting, with the difference being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the County is improving or deteriorating. You will also need to consider other non-financial factors, such as changes in the County's property tax base and the condition of County roads and other capital assets, to assess the overall health of the County.

The statement of activities presents the County's governmental activities. Most of the basic services are reported here, including general government, public safety, highway, sanitation, family services, health, culture and recreation, conservation of natural resources, and economic development. Property taxes and state and federal grants finance most of these activities. The County has no business-type activities or component units for which the County is legally accountable.

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

Fund Financial Statements

The fund financial statements provide detailed information about the significant fund--not the County as a whole. Some funds are required to be established by state law or by bond covenants. However, the County Board establishes some funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

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 how money flows into and out of these funds and the balances left at year-end that are available for spending. These funds are reported using modified accrual accounting. 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 County'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.

The County adopts an annual appropriated budget for its General Fund, Highway Special Revenue Fund, Family Services Special Revenue Fund, and Ditch Special Revenue Fund. Budgetary comparison statements have been provided for each of these funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on Exhibits 3 through 6 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside of the County. Fiduciary funds are not reflected in the *government-wide statements* because the resources of these funds are not available to support the County's own programs or activities. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on Exhibits 7.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Over time, net assets serve as a useful indicator of the County's financial position. The County's assets exceeded liabilities by \$28,619,011 at the close of 2004. The largest portion of the net assets (75.0 percent) reflects its investment in capital assets (land, buildings, equipment, and infrastructure such as roads and bridges), less any related outstanding debt used to acquire those assets. However, it should be noted that these assets are not available for future spending or for liquidating any remaining debt.

Big Stone County Net Assets

	Governmental Activities 2004
Assets	
Current and other assets	\$ 8,003
Capital assets	21,572
	<hr/>
Total Assets	\$ 29,575
	<hr/>
Liabilities	
Long-term liabilities	\$ 630
Other liabilities	326
	<hr/>
Total Liabilities	\$ 956
	<hr/>
Net Assets	
Invested in capital assets, net of related debt	\$ 21,458
Restricted	266
Unrestricted	6,895
	<hr/>
Total Net Assets	\$ 28,619
	<hr/>

Unrestricted net assets--the part of net assets that may be used to meet the County's ongoing obligations to citizens and creditors without constraints established by debt covenants, enabling legislation, or other legal requirements--are 24.1 percent of the net assets.

Governmental Activities

The County's activities increased net assets by 7.2 percent (\$28,619,011 for 2004 compared to \$26,701,772 for 2003). Key elements in this increase in net assets are as follows:

Big Stone County Changes in Net Assets (in thousands)

	Governmental Activities 2004
Revenues	
Program revenues	
Charges for services	\$ 482
Operating grants and contributions	2,560
Capital grants and contributions	1,511
General revenues	
Property taxes	2,049
Other	1,401
Total Revenues	<u>\$ 8,003</u>
Expenses	
General government	\$ 1,191
Public safety	854
Highways	1,358
Sanitation	174
Human services	2,100
Health	70
Culture and recreation	110
Conservation of natural resources	183
Economic development	34
Interest	12
Total Expenses	<u>\$ 6,086</u>
Change in Net Assets	\$ 1,917
Net Assets - January 1	<u>26,702</u>
Net Assets - December 31	<u><u>\$ 28,619</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

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

At the end of the current fiscal year, governmental funds reported combined ending fund balances of \$7,265,347, a decrease of \$421,896 in comparison with the prior year. Of the combined ending fund balances, \$6,671,226 represents unreserved fund balance, which is available for spending at the County's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed for various reasons either by state law, grant agreements, or bond covenants.

The General Fund is the main operating fund for the County. At the end of the current fiscal year, it had an unreserved fund balance of \$2,787,142. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total expenditures. The General Fund unreserved fund balance represents 108.8 percent of total General Fund expenditures. During 2004, the ending fund balance decreased by \$29,220. The primary reason for this decrease was due to the completion of a transportation enhancement project at the County's Historical Museum and increased jail costs.

The Highway Special Revenue Fund had an unreserved fund balance of \$1,337,496 at fiscal year-end representing 33.1 percent of its annual expenditures. The ending fund balance decreased \$357,815 during 2004, primarily due to the completion of previously planned county road projects.

The Family Services Special Revenue Fund had an unreserved fund balance of \$2,466,214 at fiscal year-end representing 118.3 percent of its annual expenditures. The ending fund balance decreased \$77,227 during 2004, primarily due to an increase in mental health costs and additional funding for the volunteer program.

The Ditch Special Revenue Fund had an unreserved fund balance of \$80,374 at fiscal year-end. The ending fund balance increased \$42,366 during 2004, primarily due to the increase of special assessments to continue to improve the financial condition of the ditch systems and strive towards establishing balances in the various ditch funds to allow for routine repairs and maintenance.

Governmental Activities

The County's total revenues were \$8,326,185. Table 1 presents the percent of total County revenues by source for the year ended December 31, 2004.

Table 1
Total County Revenues

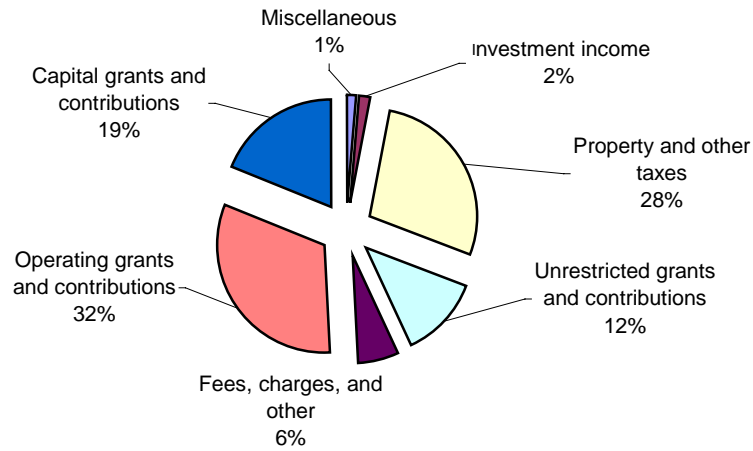
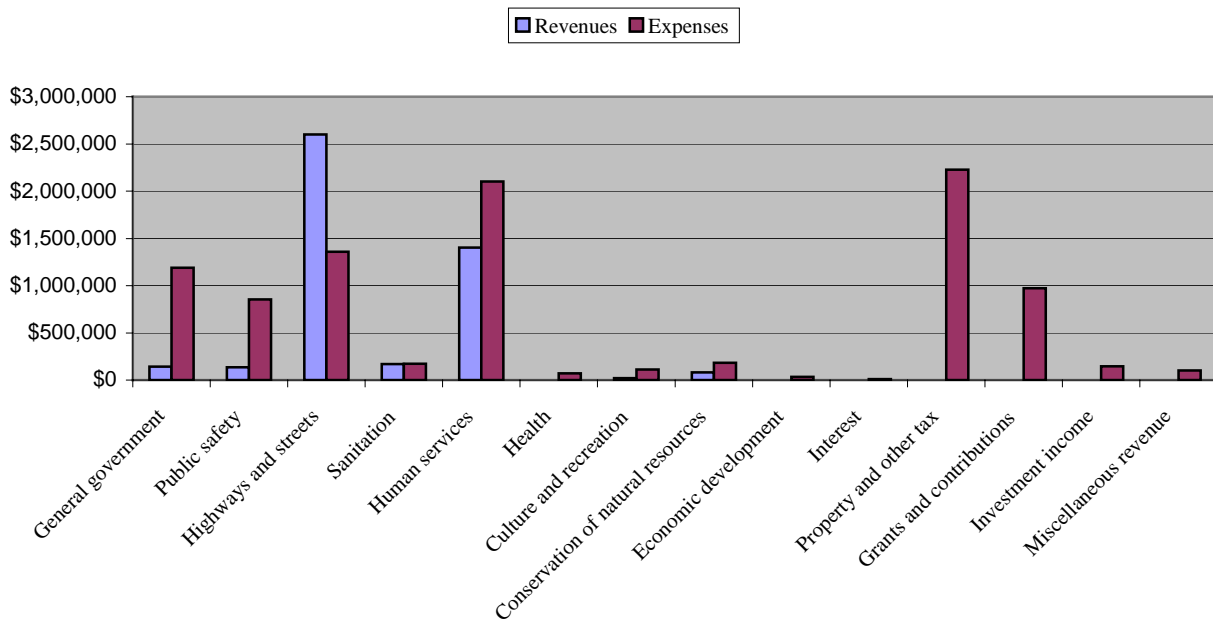


Table 2 presents the cost and revenue of each program, as well as the County’s general revenues and special and extraordinary items.

Total revenues for the County were \$8,328,685, while total expenses were \$8,728,044. This reflects a \$399,359 decrease in net assets for the year ended December 31, 2004.

Table 2



The cost of all governmental activities this year was \$6,086,329. However, as shown on the Statement of Activities on Exhibit 2, the amount that our taxpayers ultimately financed for these activities through County taxes was only \$1,533,066 because some of the cost was paid by those who directly benefited from the programs (\$481,690) or by other governments and organizations that subsidized certain programs with grants and contributions (\$4,071,573). The County paid for the remaining “public benefit” portion of governmental activities with \$3,450,305 in general revenues, primarily taxes (some of which could only be used for certain programs) and other revenues, such as grants and contributions not restricted to specific programs, and interest.

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

**Table 3
Governmental Activities**

	Total Cost of Services 2004	Net Cost of Services 2004
Highway	\$ 1,358,157	\$ (1,242,228)
Family Services	2,100,259	698,265
General Government	1,190,627	1,049,003
Public Safety	854,092	718,852
All Others	583,194	309,174
Totals	\$ 6,086,329	\$ 1,533,066

General Fund Budgetary Highlights

Over the course of the year, the County Board revised the General Fund budget. The actual charges to appropriations (expenditures) were \$69,696 over the final budget amounts. The most significant negative variance (\$52,580) occurred in the County’s Sheriff’s Department, where the jail costs were more than anticipated, resulting in a 7.72 percent increase over expected expenditures. Reasons for other significant variances of actual expenditures from final budget include a higher than anticipated cost for funding the volunteer program and the mental health program in Family Services.

On the other hand, resources available for appropriation were also \$162,246 above the final budgeted amount. Greater than expected collections for certain fees, an insurance dividend and additional state and federal grants, offset reductions in anticipated investment earnings and County Program Aid due from the State.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The County's capital assets for its governmental activities at December 31, 2004, totaled \$21,572,103 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, and infrastructure. The investment in capital assets increased \$2,606,453 or 13.7 percent from the previous year. The major capital asset events were:

- \$3,776,788 Construction of highways and streets
- \$ 138,555 Purchase of vehicles and equipment

Capital Assets at Year-End (Net of depreciation, in thousands)

	<u>2004</u>
Land	\$ 699
Infrastructure	18,756
Buildings	871
Improvements other than buildings	162
Machinery and equipment	<u>1,084</u>
Total	<u>\$ 21,572</u>

Additional information about 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 total outstanding debt of \$234,034, which was backed by the full faith and credit of the government.

Outstanding Debt

	<u>2004</u>
General Obligation Bonds	\$ 120,000
Contracts for Deed	<u>114,034</u>
Total	<u>\$ 234,034</u>

The County's debt related to general obligation bonds decreased by \$15,000 (11.11 percent) during the fiscal year.

Minnesota Statutes limit the amount of debt a county may levy to 2 percent of its total market value. At the end of 2004, the County's outstanding debt was .06 percent of its total estimated market value.

Additional information on the County's long-term debt can be found in the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The County's elected and appointed officials considered many factors when setting the 2005 budget, tax rates, and fees that will be charged for the year.

- The average unemployment rate for Big Stone County for 2004 was 4.8 percent. This compares unfavorably with the state unemployment rate of 4.7 percent and shows an increase from the County's 4.3 percent rate of one year ago. This could impact the level of services requested by County residents.
- Mortgage interest rates have been extremely low, causing many to refinance their mortgages and/or finance new construction.
- The County General Fund expenditures for 2005 are budgeted to increase 7.56 percent (\$184,604) over the 2004 original budget. The 2005 anticipated revenues, other than tax levy, state aid, and special assessments, are budgeted to increase 2.98 percent (\$16,561) over the 2004 original budget.
- The property tax levy for the County increased 7.17 percent (\$213,152) from 2004; but due to state aid cuts (\$17,243), the net tax levy (the amount spread to tax payers) increased 9.74 percent from 2004.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Big Stone County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Auditor, Michelle R. Knutson, Big Stone County Courthouse, 20 - 2nd Street Southeast, Ortonville, Minnesota 56278.

This page was left blank intentionally.

BASIC FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Assets

Cash and pooled investments	\$ 5,946,831
Investments	1,018,273
Receivables - net	895,468
Inventories	142,824
Capital assets	
Non-depreciable capital assets	699,031
Depreciable capital assets - net of accumulated depreciation	20,873,072
Total Assets	\$ 29,575,499

Liabilities

Accounts payable and other current liabilities	\$ 242,730
Accrued interest payable	4,670
Unearned revenue	78,361
Long-term liabilities	
Due within one year	117,666
Due in more than one year	513,061
Total Liabilities	\$ 956,488

Net Assets

Invested in capital assets, net of related debt	\$ 21,458,069
Restricted for	
Highways and streets	154,720
Public safety	32,938
Conservation of natural resources	71,001
Other purposes	7,415
Unrestricted	6,894,868
Total Net Assets	\$ 28,619,011

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 2

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
		<u>Fees, Charges, Fines, and Other</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<u>Functions/Programs</u>					
Governmental activities					
General government	\$ 1,190,627	\$ 107,315	\$ 31,250	\$ 3,059	\$ (1,049,003)
Public safety	854,092	36,488	84,469	14,283	(718,852)
Highways and streets	1,358,157	122,885	983,448	1,494,052	1,242,228
Sanitation	174,102	-	169,554	-	(4,548)
Human services	2,100,259	159,988	1,242,006	-	(698,265)
Health	70,418	1,615	-	-	(68,803)
Culture and recreation	110,406	5,174	16,702	-	(88,530)
Conservation of natural resources	182,764	48,225	32,750	-	(101,789)
Economic development	34,064	-	-	-	(34,064)
Interest	11,440	-	-	-	(11,440)
Total governmental activities	\$ 6,086,329	\$ 481,690	\$ 2,560,179	\$ 1,511,394	\$ (1,533,066)
General revenues					
Property taxes					\$ 2,049,164
Gravel taxes					139,473
Payments in lieu of tax					38,746
Grants and contributions not restricted to specific programs					972,637
Unrestricted investment earnings					146,899
Miscellaneous					103,386
Total general revenues					\$ 3,450,305
Change in Net Assets					\$ 1,917,239
Net Assets - Beginning					26,701,772
Net Assets - Ending					\$ 28,619,011

FUND FINANCIAL STATEMENTS

This page was left blank intentionally.

GOVERNMENTAL FUNDS

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 3

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Assets</u>					
Cash and pooled investments	\$ 2,842,571	\$ 393,824	\$ 2,420,348	\$ 188,852	\$ 5,845,595
Undistributed cash in agency funds	18,597	67,454	5,064	658	91,773
Petty cash and change funds	1,820	75	2,300	-	4,195
Departmental cash	5,268	-	-	-	5,268
Investments	29,197	960,000	-	29,076	1,018,273
Taxes receivable					
Prior	25,999	10,841	8,898	-	45,738
Special assessments receivable					
Prior	5,262	-	-	371	5,633
Noncurrent	-	-	-	217,490	217,490
Accounts receivable	223	144	3,823	-	4,190
Accrued interest receivable	71,018	6,687	-	15	77,720
Loans receivable	-	100,000	25,000	-	125,000
Due from other governments	21,301	256,967	141,299	130	419,697
Advance to other funds	138,433	-	-	-	138,433
Inventories	-	142,824	-	-	142,824
Total Assets	<u>\$ 3,159,689</u>	<u>\$ 1,938,816</u>	<u>\$ 2,606,732</u>	<u>\$ 436,592</u>	<u>\$ 8,141,829</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

**EXHIBIT 3
(Continued)**

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2004**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
<u>Liabilities and Fund Balances</u>					
Liabilities					
Accounts payable	\$ 11,571	\$ 3,255	\$ 57,337	\$ -	\$ 72,163
Salaries payable	34,073	27,579	33,768	-	95,420
Contracts payable	-	31,618	-	-	31,618
Due to other governments	35,357	1,137	7,035	-	43,529
Advance from other funds	-	-	-	138,433	138,433
Deferred revenue - unavailable	25,751	166,070	7,352	217,785	416,958
Deferred revenue - unearned	10,499	57,836	10,026	-	78,361
Total Liabilities	\$ 117,251	\$ 287,495	\$ 115,518	\$ 356,218	\$ 876,482
Fund Balances					
Reserved for					
Advance to other funds	\$ 138,433	\$ -	\$ -	\$ -	\$ 138,433
Inventories	-	142,824	-	-	142,824
Loans receivable	-	100,000	25,000	-	125,000
Missing heirs	4,892	-	-	-	4,892
Recorder's equipment	2,523	-	-	-	2,523
Enhanced 911	27,408	-	-	-	27,408
Sheriff's contingency	3,925	-	-	-	3,925
Gravel pit restoration	-	71,001	-	-	71,001
Gun permit fees	1,605	-	-	-	1,605
Fish and wildlife trust payment	76,510	-	-	-	76,510
Unreserved					
Designated for future expenditures	1,706,001	366,680	1,455,803	80,374	3,608,858
Undesignated	1,081,141	970,816	1,010,411	-	3,062,368
Total Fund Balances	\$ 3,042,438	\$ 1,651,321	\$ 2,491,214	\$ 80,374	\$ 7,265,347
Total Liabilities and Fund Balances	\$ 3,159,689	\$ 1,938,816	\$ 2,606,732	\$ 436,592	\$ 8,141,829

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 4

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS--GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2004**

Fund Balances - Total Governmental Funds (Exhibit 3)	\$	7,265,347
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.		21,572,103
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		416,958
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
General obligation bonds	\$ (120,000)	
Contracts for deed	(114,034)	
Compensated absences	(396,693)	
Accrued interest payable	(4,670)	
	(635,397)	(635,397)
Net Assets of Governmental Activities (Exhibit 1)		\$ 28,619,011

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 5

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>General</u>	<u>Highway</u>	<u>Family Services</u>	<u>Ditch</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes	\$ 1,177,487	\$ 599,680	\$ 408,542	\$ -	\$ 2,185,709
Special assessments	114,080	-	-	78,490	192,570
Licenses and permits	28,620	-	-	-	28,620
Intergovernmental	831,741	2,969,726	1,438,190	-	5,239,657
Charges for services	140,286	97,859	141,747	-	379,892
Investment earnings	127,500	19,279	-	120	146,899
Miscellaneous	112,109	22,488	18,241	-	152,838
Total Revenues	\$ 2,531,823	\$ 3,709,032	\$ 2,006,720	\$ 78,610	\$ 8,326,185
Expenditures					
Current					
General government	\$ 1,172,623	\$ -	\$ -	\$ -	\$ 1,172,623
Public safety	832,956	-	-	-	832,956
Highways and streets	-	3,891,741	-	-	3,891,741
Sanitation	170,094	-	-	-	170,094
Human services	-	-	2,083,947	-	2,083,947
Health	29,113	-	-	-	29,113
Culture and recreation	96,149	-	-	-	96,149
Conservation of natural resources	177,539	-	-	14,188	191,727
Economic development	34,064	-	-	-	34,064
Intergovernmental	41,305	132,803	-	-	174,108
Debt service					
Principal retirement	7,200	16,987	-	15,000	39,187
Interest	-	5,279	-	6,660	11,939
Administrative (fiscal) fees	-	-	-	396	396
Total Expenditures	\$ 2,561,043	\$ 4,046,810	\$ 2,083,947	\$ 36,244	\$ 8,728,044
Excess of Revenues Over (Under) Expenditures	\$ (29,220)	\$ (337,778)	\$ (77,227)	\$ 42,366	\$ (401,859)
Other Financing Sources (Uses)					
Proceeds from sale of assets	-	2,500	-	-	2,500
Net Change in Fund Balances	\$ (29,220)	\$ (335,278)	\$ (77,227)	\$ 42,366	\$ (399,359)
Fund Balance - January 1	3,071,658	2,009,136	2,568,441	38,008	7,687,243
Increase (decrease) in reserved for inventories	-	(22,537)	-	-	(22,537)
Fund Balance - December 31	\$ 3,042,438	\$ 1,651,321	\$ 2,491,214	\$ 80,374	\$ 7,265,347

**BIG STONE COUNTY
ORTONVILLE, 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, 2004**

Net Change in Fund Balances - Total Governmental Funds (Exhibit 5)	\$	(399,359)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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.</p>		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	\$ 4,044,019	
Current year depreciation	<u>(1,437,566)</u>	2,606,453
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		(325,117)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principal repayments		
General obligation bonds	\$ 15,000	
Contracts for deed	<u>24,187</u>	39,187
<p>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.</p>		
Change in accrued interest payable	\$ 895	
Change in compensated absences	17,717	
Change in inventories	<u>(22,537)</u>	<u>(3,925)</u>
Change in Net Assets of Governmental Activities (Exhibit 2)	\$	<u>1,917,239</u>

This page was left blank intentionally.

FIDUCIARY FUNDS

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

EXHIBIT 7

**STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
DECEMBER 31, 2004**

Assets

Cash and pooled investments	<u>\$ 218,385</u>
-----------------------------	-------------------

Liabilities

Due to other governments	<u>\$ 218,385</u>
--------------------------	-------------------

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2004

1. Summary of Significant Accounting Policies

The County's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) for the year ended December 31, 2004. 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.

In June 1999, GASB unanimously approved Statement No. 34, *Basic Financial Statements--and Management's Discussion and Analysis--for State and Local Governments*. The significant changes in the statement include the following:

- For the first time, the financial statements include:
 - A Management's Discussion and Analysis (MD&A) section providing an analysis of the County's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the County's activities, including infrastructure (roads, bridges, etc.).
 - A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including the notes to the financial statements). The County has elected to implement all provisions of the statement in the current year.

Certain fund reclassifications were made as of January 1, 2004.

- The Forfeited Tax Sale and Gravel Tax Special Revenue Funds were eliminated because of the new fund definitions in GASB Statement 34. The ending fund balances of \$21,254 and \$77,737, respectively, and an offsetting amount payable were combined with the Taxes and Penalties Agency Fund beginning balance for 2004.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

- The Region 6W, School Districts, Towns and Cities, and Watershed Agency Funds were eliminated because of new fund definitions in GASB Statement 34. Their cash and an offsetting amount payable were combined with the Taxes and Penalties Agency Fund.

A. Financial Reporting Entity

Big Stone County was established February 20, 1862, and is an organized County having the powers, duties, and privileges granted counties by Minn. Stat. § 373.01. As required by accounting principles generally accepted in the United States of America, these financial statements present Big Stone County. 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. The County Auditor serves as the clerk of the Board of Commissioners, but has no vote.

Joint Ventures

The County participates in several joint ventures which are described in Note 5.C. The County also participates in jointly-governed organizations which are described in Note 5.D.

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 Big Stone 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. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately.

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the County's governmental activities are offset by program revenues. Direct expenses are those 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 funds, with each displayed as separate columns in the fund financial statements. The County reports all of its governmental funds as major 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 Highway 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 Family Services Special Revenue Fund is used to account for economic assistance and community social services programs.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

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

Additionally, the County reports the following fund type:

Fiduciary Funds

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

C. Measurement Focus and Basis of Accounting

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Big Stone 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

C. Measurement Focus and Basis of Accounting (Continued)

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.

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, 2004, 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 2004 were \$117,639.

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments (Continued)

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

2. Receivables and Payables

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

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

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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

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

3. Inventories and Prepaid Items

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.

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.

4. Restricted Assets

Certain funds of the County are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, their use is limited by applicable laws and regulations.

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (such as 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 \$5,000 or more 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Land improvements	20 - 35
Public domain infrastructure	15 - 70
Machinery and equipment	3 - 15

6. Compensated Absences

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

7. Deferred Revenue

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

8. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

8. Long-Term Obligations (Continued)

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

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

9. Fund Equity

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

10. Use of Estimates

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Excess of Expenditures Over Budget

<u>Fund</u>	<u>Expenditures</u>	<u>Budget</u>	<u>Excess</u>
General Fund	\$ 2,561,043	\$ 2,491,347	\$ 69,696
Special Revenue Funds			
Highway	4,046,810	3,962,100	84,710
Family Services	2,083,947	1,797,471	286,476
Ditch	36,244	15,000	21,244

B. Deficit Fund Equity

Ditch Special Revenue Fund

Three of 21 drainage systems have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies. The following summary of drainage system fund balance accounts shows the unreserved, undesignated fund balance as of December 31, 2004:

Account balances	\$ 218,582
Account balance deficits	(138,208)
	<hr/>
Total	\$ 80,374

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	\$ 5,946,831
Investments	1,018,273
Fiduciary funds	
Agency funds	218,385
	<hr/>
Total Cash and Investments	\$ 7,183,489

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Minn. Stat. §§ 118A.02 and 118A.04 authorize the County to deposit its cash and to invest in certificates of deposit in financial institutions as directed by the County Board. At December 31, 2004, the carrying amount of the County's deposits totaled \$7,174,026. The bank balance deposit amount was \$7,173,331. Minnesota Statutes require that all County deposits be covered by insurance, surety bond, or collateral.

Following is a summary of the deposits covered by insurance or collateral at December 31, 2004.

	<u>Bank Balance</u>
Covered Deposits	
Insured, or collateralized with securities held by the County or its agent in the County's name	\$ 1,413,692
Collateralized with securities held by the pledging financial institution's agent in the County's name	<u>5,759,639</u>
Total covered deposits	\$ 7,173,331
Uncollateralized	<u>-</u>
Total	<u>\$ 7,173,331</u>

Three levels of custodial credit risk for securities are defined by generally accepted accounting principles:

- (1) securities that are insured or registered, or for which the securities are held by the County or its agent in the County's name;
- (2) securities that are uninsured and unregistered and are held by the counterparty's trust department or agent in the County's name; and
- (3) securities that are uninsured and unregistered and are held by the counterparty, or by its trust department or agent, but not in the County's name.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

The County had no investments at December 31, 2004, that were required to be categorized by custodial credit risk according to generally accepted accounting principles. Following is a summary of the fair values of the County's investments, at December 31, 2004:

Petty cash and change funds	\$	4,195
Departmental cash		5,268
Checking		604,237
Money market savings		1,996,828
Certificates of deposit		4,572,961
		4,572,961
Total	\$	7,183,489

2. Receivables

Receivables as of December 31, 2004, year-end 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	\$ 45,738	\$ -
Special assessments	223,123	217,490
Accounts	4,190	-
Interest	77,720	-
Loans	125,000	105,309
Due from other governments	419,697	-
	419,697	-
Total Governmental Activities	\$ 895,468	\$ 322,799

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 660,781	\$ -	\$ -	\$ 660,781
Right-of-way	-	38,250	-	38,250
Total capital assets not depreciated	\$ 660,781	\$ 38,250	\$ -	\$ 699,031
Capital assets depreciated				
Buildings	\$ 2,475,339	\$ -	\$ -	\$ 2,475,339
Land improvements	177,567	-	-	177,567
Machinery and equipment	3,218,651	228,981	90,426	3,357,206
Infrastructure	26,121,308	3,776,788	-	29,898,096
Total capital assets depreciated	\$ 31,992,865	\$ 4,005,769	\$ 90,426	\$ 35,908,208
Less: accumulated depreciation for				
Buildings	\$ 1,562,825	\$ 41,747	\$ -	\$ 1,604,572
Land improvements	7,097	8,878	-	15,975
Machinery and equipment	2,130,164	233,022	90,426	2,272,760
Infrastructure	9,987,910	1,153,919	-	11,141,829
Total accumulated depreciation	\$ 13,687,996	\$ 1,437,566	\$ 90,426	\$ 15,035,136
Total capital assets depreciated, net	\$ 18,304,869	\$ 2,568,203	\$ -	\$ 20,873,072
Governmental Activities Capital Assets, Net	\$ 18,965,650	\$ 2,606,453	\$ -	\$ 21,572,103

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

Governmental Activities	
General government	\$ 37,946
Public safety	26,613
Highways and streets, including depreciation of infrastructure assets	1,345,191
Family services	12,446
Culture and recreation	14,257
Conservation of natural resources	1,113
Total Depreciation Expense - Governmental Activities	\$ 1,437,566

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of December 31, 2004, is as follows:

1. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General	Ditch	\$ 138,433

C. Liabilities

1. Payables

Payables at December 31, 2004, were as follows:

Accounts	\$ 72,163
Salaries	95,420
Contracts	31,618
Due to other governments	43,529
Total Payables	\$ 242,730

2. Construction Commitments

The government has active construction projects as of December 31, 2004. The projects include the following:

	Spent-to-Date	Remaining Commitment
Governmental Activities		
Roads and bridges	\$ 632,369	\$ 288,691

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

3. Bonded Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
General Obligation Bonds 1996 G. O. Drainage Bonds	2012	\$15,000	5.29523	<u>\$ 235,000</u>	<u>\$ 120,000</u>

Debt payments on the drainage bonds are made from the Ditch Fund. Debt service requirements at December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 15,000	\$ 5,932
2006	15,000	5,190
2007	15,000	4,433
2008	15,000	3,660
2009	15,000	2,872
2010	15,000	2,070
2011	15,000	1,253
2012	15,000	420
Total	<u>\$ 120,000</u>	<u>\$ 25,830</u>

4. Contracts for Deed

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Installment Amounts</u>	<u>Average Interest Rates (%)</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2004</u>
Contracts for Deed Highway Fund - Gravel Pit	2007	\$18,176 - \$20,810	7.00	\$ 120,000	\$ 58,434
General Fund Government Building	2007	\$7,200 - \$41,200	0.00	<u>75,000</u>	<u>55,600</u>
Total Contracts for Deed				<u>\$ 195,000</u>	<u>\$ 114,034</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities

4. Contracts for Deed (Continued)

Debt payments on the Contracts for Deed are made out of the Highway and General Funds. Debt service requirements at December 31, 2004, were as follows:

<u>Year Ending December 31</u>	<u>Highway Fund - Gravel Pit</u>		<u>General Fund - Government Building</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2005	\$ 18,176	\$ 4,090	\$ 7,200
2006	19,448	2,818	7,200
2007	<u>20,810</u>	<u>1,457</u>	<u>41,200</u>
Totals	<u>\$ 58,434</u>	<u>\$ 8,365</u>	<u>\$ 55,600</u>

5. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable					
General obligation bonds					
Drainage bonds	\$ 135,000	\$ -	\$ 15,000	\$ 120,000	\$ 15,000
Contracts for Deed					
Highway Fund					
Gravel Pit	75,421	-	16,987	58,434	18,176
General Fund					
Government Building	62,800	-	7,200	55,600	7,200
Compensated absences	<u>414,410</u>	<u>-</u>	<u>17,717</u>	<u>396,693</u>	<u>77,290</u>
Governmental Activity Long-Term Liabilities	<u>\$ 687,631</u>	<u>\$ -</u>	<u>\$ 56,904</u>	<u>\$ 630,727</u>	<u>\$ 117,666</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description

All full-time and certain part-time employees of Big Stone 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 and the Public Employees Police and Fire 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.

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. Using 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 the 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 Retirement Fund members whose annuity is calculated using Method 1, and all Public Employees Police and Fire 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.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Plan Description (Continued)

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.

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

Funding Policy

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

The County is required to contribute the following percentages of annual covered payroll:

Public Employees Retirement Fund	
Basic Plan members	11.78%
Coordinated Plan members	5.53
Public Employees Police and Fire Fund	9.30

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

4. Employee Retirement Systems and Pension Plans

A. Defined Benefit Plan

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2004, 2003, and 2002, for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund were:

	<u>Public Employees Retirement Fund</u>	<u>Public Employees Police and Fire Fund</u>
2004	\$ 125,978	\$ 18,953
2003	121,936	16,385
2002	119,521	15,274

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.

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, 2004, 2003, and 2002, were \$502, \$0, and \$0, respectively, equal to the contractually required contributions for each year as set by state statute.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency 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 all other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

The Workers' Compensation Division of the 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. The MCIT participates in the Workers' Compensation Reinsurance Association with coverage at \$720,000 per claim in 2004 and \$760,000 per claim in 2005. Should the MCIT Workers' Compensation Division liabilities exceed assets, the MCIT may assess the County in a method and amount to be determined by the MCIT.

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

B. Contingent Liabilities

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

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

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

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

C. Joint Ventures

Countryside Public Health Service

The Countryside Public Health Service was established July 1, 1979, by a joint powers agreement among Big Stone, Chippewa, Lac qui Parle, Swift, and Yellow Medicine Counties. The agreement was established to provide community health care for the residents of the five-county area. Each county's proportionate share of the total responsibility of the project is established on a per capita basis as determined by the most recent statistical estimates provided by the Minnesota Board of Health.

In the event of termination of the joint powers agreement, any property acquired as a result of the agreement and any surplus monies on hand at that time shall be divided among the counties in the same proportions as their respective proportionate financial responsibilities.

Control is vested in the Countryside Public Health Service Board of Health. The Board consists of 11 persons, two from each county, except the county with the largest population, which has three members. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

Financing is provided by state and federal grants, appropriations from member counties, and charges for services. Big Stone County's contribution for 2004 was \$41,305. Complete financial statements for the Countryside Public Health Service can be obtained from its administrative office at P. O. Box 313, Benson, Minnesota 56215, or from the County Auditor's Office at the Courthouse.

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Big Stone County and 30 other counties. The agreement was made to promote orderly water quality improvement and management of the Minnesota River Watershed. Each county is responsible for its proportionate share of the administrative budget and for its share of benefits from any special project.

In the event of termination of the agreement, all property, real and personal, held by the Joint Powers Board shall be distributed by resolution of the policy committee to best accomplish the continuing purpose of the project.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures

Minnesota River Basin (Continued)

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

During 2004, Big Stone County contributed \$500 to the Joint Powers Board. Complete financial statements for the Minnesota River Basin Joint Powers Board can be obtained from its administrative office at Administration Building No. 14, 600 East 4th Street, Chaska, Minnesota 55318.

Southwestern Minnesota Adult Mental Health Consortium Board

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

The following is a summary of the Board's annual financial report (the latest available) for the year ended December 31, 2003:

Total assets	\$ 220,978
Total liabilities	5,230
Total equity	215,748
Total revenues	889,414
Total expenditures	856,904
Net increase to fund balance	32,510

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures

Southwestern Minnesota Adult Mental Health Consortium Board (Continued)

The Consortium Board reported no long-term obligations at December 31, 2003.

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

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established in December 1998 by a joint powers agreement among Big Stone and nine other counties under the authority of Minn. Stat. § 471.59. The purpose of this agreement is to plan and administer a multi-county, county-based purchasing program for medical assistance and general assistance medical care services and other health care programs as authorized by Minn. Stat. § 256B.692.

Control of the Purchasing Initiative is vested in a Joint Powers Board, composed of one Commissioner from each member county. Each member of the Board is appointed by the County Commissioners of the county he or she represents.

In the event of termination of the joint powers agreement, all assets owned pursuant to this agreement shall be sold; and the proceeds, together with monies on hand, will be distributed to the current member based on their proportional share of each member's county-based purchasing eligible population.

Financing is provided by medical assistance and general assistance medical care payments from the Minnesota Department of Human Services, initial start-up loans from the member counties, and by proportional contributions from member counties, if necessary, to cover operational costs. In 1999, Big Stone County provided \$25,000 in the form of an initial start-up loan to the Prime West Central County-Based Purchasing Initiative. The County did not contribute any funds to the Purchasing Initiative in 2004.

Douglas County acts as fiscal agent for Prime West Central County-Based Purchasing Initiative and reports the cash transactions as an investment trust fund on its financial statements. Complete financial information can be obtained from its administrative office at: Prime West Health Systems, Douglas County Courthouse, 305 - 8th Avenue West, Alexandria, Minnesota 56308.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

5. Summary of Significant Contingency and Other Items

C. Joint Ventures (Continued)

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, between Big Stone County and five other counties and their respective soil and water conservation districts. The agreement was made to develop and implement plans to protect property from damage of flooding, control erosion of land, protect streams and lakes from sedimentation and pollution, and maintain or improve the quality of water in the streams, lakes, and ground water lying within the boundaries of the watershed of the Pomme de Terre River. Administrative costs are apportioned equally to the soil and water conservation districts based on actual costs.

Control is vested in a Joint Powers Board, comprised of one representative of each of the County Boards of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement.

During 2004, Big Stone County did not contribute any funds to the Joint Powers Board. Complete financial information for the Pomme de Terre River Association Joint Powers Board can be obtained from its administrative offices at: 900 Roberts Street, Suite 104, Alexandria, Minnesota 56308.

D. Related Organization - Upper Minnesota River Watershed District

The County Board is responsible for appointing a majority of the Board of Managers for the Upper Minnesota River Watershed District, but the County's responsibility does not extend beyond making the appointments.

E. Agricultural Best Management Loan Program

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

REQUIRED SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 1,152,987	\$ 1,152,987	\$ 1,177,487	\$ 24,500
Special assessments	115,570	115,570	114,080	(1,490)
Licenses and permits	24,120	24,120	28,620	4,500
Intergovernmental	743,157	743,157	831,741	88,584
Charges for services	131,013	131,013	140,286	9,273
Investment earnings	151,300	151,300	127,500	(23,800)
Miscellaneous	51,430	51,430	112,109	60,679
Total Revenues	\$ 2,369,577	\$ 2,369,577	\$ 2,531,823	\$ 162,246
Expenditures				
Current				
General government				
Commissioners	\$ 136,381	\$ 136,381	\$ 128,672	\$ 7,709
Human resources	46,458	46,458	51,172	(4,714)
Law library	9,600	9,600	10,793	(1,193)
Auditor	163,061	163,061	156,708	6,353
Treasurer	86,413	86,413	82,752	3,661
Assessor	136,994	136,994	136,965	29
Elections	12,600	12,600	8,168	4,432
Accounting and auditing	35,000	35,000	29,871	5,129
Data processing	59,700	59,700	56,516	3,184
Attorney	56,241	56,241	56,656	(415)
Recorder	156,774	156,774	157,205	(431)
Planning and zoning	44,286	44,286	48,818	(4,532)
Buildings and plant	115,763	115,763	126,832	(11,069)
Veterans service officer	31,580	31,580	19,577	12,003
Other general government	121,650	121,650	101,918	19,732
Total general government	\$ 1,212,501	\$ 1,212,501	\$ 1,172,623	\$ 39,878
Public safety				
Sheriff	\$ 630,948	\$ 680,948	\$ 733,528	\$ (52,580)
Boat and water safety	400	400	1,450	(1,050)
Coroner	2,000	2,000	3,091	(1,091)
E-911 system	37,300	37,300	40,851	(3,551)
Probation	-	-	18,543	(18,543)
Emergency management	25,580	25,580	35,493	(9,913)
Total public safety	\$ 696,228	\$ 746,228	\$ 832,956	\$ (86,728)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Sanitation				
Solid waste	\$ 62,706	\$ 62,706	\$ 60,395	\$ 2,311
Recycling	97,500	97,500	107,835	(10,335)
Hazardous waste	1,500	1,500	1,864	(364)
Total sanitation	\$ 161,706	\$ 161,706	\$ 170,094	\$ (8,388)
Health				
Nursing service	\$ 15,300	\$ 15,300	\$ 15,113	\$ 187
Ambulance	14,000	14,000	14,000	-
Total health	\$ 29,300	\$ 29,300	\$ 29,113	\$ 187
Culture and recreation				
Historical society	\$ 38,000	\$ 38,000	\$ 4,365	\$ 33,635
Minnesota trails	-	-	16,702	(16,702)
Parks	14,846	14,846	20,129	(5,283)
Regional library	51,303	51,303	51,303	-
Other	4,025	4,025	3,650	375
Total culture and recreation	\$ 108,174	\$ 108,174	\$ 96,149	\$ 12,025
Conservation of natural resources				
Extension	\$ 77,024	\$ 77,024	\$ 72,458	\$ 4,566
Soil and water conservation	47,073	47,073	47,073	-
Agricultural society	10,000	10,000	10,000	-
Water planning	28,788	28,788	36,838	(8,050)
Feedlot management	7,984	7,984	10,140	(2,156)
Other	-	-	1,030	(1,030)
Total conservation of natural resources	\$ 170,869	\$ 170,869	\$ 177,539	\$ (6,670)
Economic development				
Community development	\$ 14,064	\$ 14,064	\$ 24,000	\$ (9,936)
Other	-	-	10,064	(10,064)
Total economic development	\$ 14,064	\$ 14,064	\$ 34,064	\$ (20,000)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 1
(Continued)

**BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures (Continued)				
Intergovernmental				
Health	\$ 41,305	\$ 41,305	\$ 41,305	\$ -
Debt service				
Principal retirement	\$ 7,200	\$ 7,200	\$ 7,200	\$ -
Total Expenditures	\$ 2,441,347	\$ 2,491,347	\$ 2,561,043	\$ (69,696)
Net Change in Fund Balance	\$ (71,770)	\$ (121,770)	\$ (29,220)	\$ 92,550
Fund Balance - January 1	<u>3,071,658</u>	<u>3,071,658</u>	<u>3,071,658</u>	<u>-</u>
Fund Balance - December 31	<u>\$ 2,999,888</u>	<u>\$ 2,949,888</u>	<u>\$ 3,042,438</u>	<u>\$ 92,550</u>

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 2

**BUDGETARY COMPARISON SCHEDULE
HIGHWAY FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 520,178	\$ 520,178	\$ 599,680	\$ 79,502
Intergovernmental	2,211,822	2,211,822	2,969,726	757,904
Charges for services	130,000	130,000	97,859	(32,141)
Investment earnings	60,000	60,000	19,279	(40,721)
Miscellaneous	-	-	22,488	22,488
Total Revenues	\$ 2,922,000	\$ 2,922,000	\$ 3,709,032	\$ 787,032
Expenditures				
Current				
Highways and streets				
Administration	\$ -	\$ -	\$ 265,206	\$ (265,206)
Maintenance	1,282,000	1,282,000	636,450	645,550
Construction	1,690,000	2,485,100	2,374,027	111,073
Equipment and maintenance shops	170,000	170,000	583,536	(413,536)
Material and services for resale	-	-	24,082	(24,082)
Other - highways and streets	25,000	25,000	8,440	16,560
Total highways and streets	\$ 3,167,000	\$ 3,962,100	\$ 3,891,741	\$ 70,359
Intergovernmental				
Highways and streets	-	-	132,803	(132,803)
Debt service				
Principal retirement	-	-	16,987	(16,987)
Interest	-	-	5,279	(5,279)
Total Expenditures	\$ 3,167,000	\$ 3,962,100	\$ 4,046,810	\$ (84,710)
Excess of Revenues Over (Under) Expenditures	\$ (245,000)	\$ (1,040,100)	\$ (337,778)	\$ 702,322
Other Financing Sources (Uses)				
Proceeds from sale of assets	-	-	2,500	2,500
Net Change in Fund Balance	\$ (245,000)	\$ (1,040,100)	\$ (335,278)	\$ 704,822
Fund Balance - January 1	2,009,136	2,009,136	2,009,136	-
Increase (decrease) in reserved for inventories	-	-	(22,537)	(22,537)
Fund Balance - December 31	\$ 1,764,136	\$ 969,036	\$ 1,651,321	\$ 682,285

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 3

**BUDGETARY COMPARISON SCHEDULE
FAMILY SERVICES SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 409,424	\$ 409,424	\$ 408,542	\$ (882)
Intergovernmental	1,342,047	1,342,047	1,438,190	96,143
Charges for services	40,000	40,000	141,747	101,747
Miscellaneous	6,000	6,000	18,241	12,241
Total Revenues	\$ 1,797,471	\$ 1,797,471	\$ 2,006,720	\$ 209,249
Expenditures				
Current				
Human services				
Income maintenance	\$ 483,342	\$ 483,342	\$ 465,975	\$ 17,367
Social services	1,314,129	1,314,129	1,541,614	(227,485)
RSVP	-	-	76,358	(76,358)
Total Expenditures	\$ 1,797,471	\$ 1,797,471	\$ 2,083,947	\$ (286,476)
Net Change in Fund Balance	\$ -	\$ -	\$ (77,227)	\$ (77,227)
Fund Balance - January 1	2,568,441	2,568,441	2,568,441	-
Fund Balance - December 31	\$ 2,568,441	\$ 2,568,441	\$ 2,491,214	\$ (77,227)

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
DITCH SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Special assessments	\$ -	\$ 52,500	\$ 78,490	\$ 25,990
Investment earnings	-	-	120	120
Total Revenues	\$ -	\$ 52,500	\$ 78,610	\$ 26,110
Expenditures				
Current				
Conservation of natural resources				
Other	\$ -	\$ 15,000	\$ 14,188	\$ 812
Debt service				
Principal retirement	-	-	15,000	(15,000)
Interest	-	-	6,660	(6,660)
Administrative (fiscal) fees	-	-	396	(396)
Total Expenditures	\$ -	\$ 15,000	\$ 36,244	\$ (21,244)
Net Change in Fund Balance	\$ -	\$ 37,500	\$ 42,366	\$ 4,866
Fund Balance - January 1	38,008	38,008	38,008	-
Fund Balance - December 31	\$ 38,008	\$ 75,508	\$ 80,374	\$ 4,866

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2004

1. General Budget Policies

The County Board adopts estimated revenue and expenditure budgets for the General Fund and the special revenue funds. The expenditure budget is approved at the fund level.

The budgets may be amended or modified at any time by the County Board. Expenditures may not legally exceed budgeted appropriations. Comparisons of final budgeted revenues and expenditures to actual are presented in the required supplementary information for the General Fund and special revenue funds.

2. Budget Basis of Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles.

3. Budget Amendments

Expenditure budgets were amended in the following funds:

	Original Budget	Increase (Decrease)	Final Budget
General Fund	\$ 2,441,347	\$ 50,000	\$ 2,491,347
Highway Fund	3,167,000	795,100	3,962,100
Ditch Fund	-	15,000	15,000

Over the course of the year, the County Board revised these budgets at different times. The budget amendments fall into three categories: new information changing original budget estimates, greater than anticipated revenues or costs, and new grant awards.

4. Excess of Expenditures Over Budget

Expenditures exceeded final budgets in the following funds:

Fund	Expenditures	Budget	Excess
General Fund	\$ 2,561,043	\$ 2,491,347	\$ 69,696
Special Revenue Funds			
Highway	4,046,810	3,962,100	84,710
Family Services	2,083,947	1,797,471	286,476
Ditch	36,244	15,000	21,244

This page was left blank intentionally.

SUPPLEMENTARY INFORMATION

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Statement 1

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 82,624	\$ 164,479	\$ 85,441	\$ 161,662
<u>Liabilities</u>				
Due to other governments	\$ 82,624	\$ 164,479	\$ 85,441	\$ 161,662
<u>STATE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 8,535	\$ 345,969	\$ 347,296	\$ 7,208
<u>Liabilities</u>				
Due to other governments	\$ 8,535	\$ 345,969	\$ 347,296	\$ 7,208
<u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 182,857	\$ 7,287,061	\$ 7,420,403	\$ 49,515
Accounts receivable	10,836	-	10,836	-
Due from other funds	6,157	-	6,157	-
Total Assets	\$ 199,850	\$ 7,287,061	\$ 7,437,396	\$ 49,515
<u>Liabilities</u>				
Accounts payable	\$ 10,207	\$ -	\$ 10,207	\$ -
Due to other funds	45,556	-	45,556	-
Due to other governments	144,087	7,287,061	7,381,633	49,515
Total Liabilities	\$ 199,850	\$ 7,287,061	\$ 7,437,396	\$ 49,515

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

*Statement 1
(Continued)*

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 274,016	\$ 7,797,509	\$ 7,853,140	\$ 218,385
Accounts receivable	10,836	-	10,836	-
Due from other funds	6,157	-	6,157	-
Total Assets	<u>\$ 291,009</u>	<u>\$ 7,797,509</u>	<u>\$ 7,870,133</u>	<u>\$ 218,385</u>
<u>Liabilities</u>				
Accounts payable	\$ 10,207	\$ -	\$ 10,207	\$ -
Due to other funds	45,556	-	45,556	-
Due to other governments	235,246	7,797,509	7,814,370	218,385
Total Liabilities	<u>\$ 291,009</u>	<u>\$ 7,797,509</u>	<u>\$ 7,870,133</u>	<u>\$ 218,385</u>

OTHER SCHEDULE

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 5

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Total Governmental Funds
	<hr/>
Shared Revenue	
State	
Highway users tax	\$ 2,505,282
County program aid	637,390
PERA rate reimbursement	11,447
Disparity reduction aid	89,361
Police aid	16,385
Enhanced 911	37,365
Market value credit	234,439
	<hr/>
Total Shared Revenue	\$ 3,531,669
Reimbursement for Services	
State	
Minnesota Department of Human Services	\$ 558,384
	<hr/>
Payments	
Local	
Payments in lieu of taxes	\$ 38,746
Household hazardous waste	2,400
	<hr/>
Total Payments	\$ 41,146
Grants	
State	
Minnesota Department/Board of	
Corrections	\$ 9,680
Examining Boards	2,149
Human Services	443,244
Natural Resources	18,647
Public Safety	4,983
Soil and Water Resources	32,750
Trial Courts	6,996
Veterans Affairs	1,400
Office of Environmental Assistance	49,099
Miscellaneous boards	7,192
	<hr/>
Total State	\$ 576,140

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 5
(Continued)

**SCHEDULE OF INTERGOVERNMENTAL REVENUE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	Total Governmental Funds
	<hr/>
Grants (Continued)	
Federal	
Department of	
Agriculture	\$ 2,642
Transportation	*** 242,841
Health and Human Services	212,594
Homeland Security	28,545
Corporation for National and Community Service	<hr/> 45,696
Total Federal	<hr/> \$ 532,318
Total State and Federal Grants	<hr/> \$ 1,108,458
Total Intergovernmental Revenue	<hr/> \$ 5,239,657 <hr/>

*** \$232,921 of this grant was not included in Single Audit determination since the expenditures were reported in 1997.

This page was left blank intentionally.

**BIG STONE COUNTY
ORTONVILLE, MINNESOTA**

Schedule 6

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

97-1 Segregation of Duties

Due to the limited number of personnel within several 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 Big Stone 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 Big Stone 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 followed by staff.

Client's Response:

Big Stone County's management is aware that staff size does not provide for adequate segregation of accounting duties and responsibilities.

Management remains cognizant of the situation and strives to ensure that staff duties and responsibilities provide as much segregation as possible.

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM RESOLVED

**Highway Planning and Construction (Davis-Bacon Requirements,
CFDA #20.205) (03-1)**

The County did not monitor the compliance requirements for the Davis-Bacon Act. The County received the payroll reports from the contractors on the two projects to show compliance; however, in reviewing the payrolls, it was noted that certain employees listed were not paid the appropriate fringe benefit amount. Furthermore, no wages were listed for two classifications.

Resolution

The County established a monitoring system that demonstrates and provides necessary evidence that the Davis-Bacon requirements have been adequately monitored.

III. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING THIS YEAR

04-1 Collateral Substitution

The procedures used for pledging new collateral and for collateral substitutions changed for Minnwest Bank. The Depository Pledge Agreement states the "...Bank may substitute Eligible Securities for any of the Collateral held by Custodian at any time by providing Custodian with a substitution notice signed by an authorized representative of the Bank, provided that the market value of the Collateral following such substitution would equal or exceed the Required Collateral Value. If Bank elects to require Depositor's written consent on a substitution notice in connection with any substitution complies with the proceeding sentence, Depositor agrees to provide it promptly upon Bank's request."

Minn. Stat. § 118A.03, subd. 5, states “[a] financial institution may withdraw excess collateral or substitute other collateral after giving written notice to the governmental entity and receiving confirmation.” The processes described by the bank do not meet this standard because they allow the financial institution to substitute collateral before it gives any notice to the governmental entity.

We recommend that the County Attorney review these procedural changes for compliance with Minn. Stat. § 118A.03, subd. 5.

Client’s Response:

The County Attorney and the bank have been notified and are checking into it.

04-2

Depository Pledge Agreement

The depository pledge agreement between the County and Minnwest Bank states that the County is required to give notice of a failure, insolvency, or breach to the bank and wait at least three business days after the notice before the County can collect the collateral from the Custodian so the bank has time to cure the default.

Minn. Stat. § 118A.03, subd. 4, states “The written assignment shall recite that, upon default, the financial institution shall release to the government entity on demand, free of exchange or any other charges, the collateral pledged.”

We recommend that the County review this security agreement to ensure that it is consistent with the default language of Minn. Stat. § 118A.03, subd. 4, and that the required language is included.

Client’s Response:

The County Attorney and the bank have been notified and are checking into it.

PREVIOUSLY REPORTED ITEMS RESOLVED

Collateral Pledged to Secure Deposits (03-2)

A piece of the collateral pledged during the year to the County by Minnwest Bank was not rated by Moody’s or Standard and Poors Investors Service.

Minn. Stat. § 118A.03, subd. 2, states that collateral pledged that is general obligation securities of any other state or local government with taxing powers, shall be rated “A” or better by a national bond rating service.

Resolution

The County complies with Minn. Stat. § 118A.03, subd. 2.

Collateral Assignments (03-3)

Four pieces of collateral pledged to Big Stone County by Clinton State Bank in September and October of 2003 did not have safekeeping agreements on file as of February 23, 2004. The County obtained safekeeping agreements for three of the four items on February 24, 2004. The three agreements obtained were dated February 13, 2004, even though the bank showed the items as being pledged in 2003.

Resolution

All pledged collateral had safekeeping agreements on file.

B. MANAGEMENT PRACTICES

PREVIOUSLY REPORTED ITEM NOT RESOLVED

98-2 Individual Ditch Systems Fund Deficits

Three of the 21 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2004, totaling \$138,208 which is down from \$146,964 in the prior year, with the largest being \$99,172 which is down from \$102,868 in the prior year on Combined Ditch No. 10/11. The Ditch Special Revenue Fund had a favorable fund balance of \$80,374 at December 31, 2004.

Minn. Stat. § 103E.735, subd. 1, provides that a repair fund may be established for any drainage system, not to exceed 20 percent of the assessed benefits of the ditch system or \$40,000, whichever is larger.

We recommend that the County Board improve the financial condition of these ditch systems by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the creation of a repair fund to provide for the repair and maintenance costs of a ditch system.

Client's Response:

The various ditch authorities have established a philosophy to continue levying on those ditches which are in deficit. They are also striving towards establishing balances in the various ditch funds to allow for routine repairs and maintenance. As stated in our response to this finding since 1999, the Joint Ditch Authority for Combined Ditch #10/11 set up a repayment plan to correct the deficit balance beginning with pay 2000. As revised on August 28, 2001, payments will be made over 15 years. There are also some expenditures that have been incurred that will not be assessed until the project is completed. Upon completion, those expenditures will be assessed over a period of 15 years.

This page was left blank intentionally.



STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR

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

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

PATRICIA ANDERSON
STATE AUDITOR

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

Board of County Commissioners
Big Stone County

We have audited the financial statements of Big Stone County as of and for the year ended December 31, 2004, and have issued our report thereon dated October 25, 2005. 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 Big Stone 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 certain matter involving 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 Recommendations as item 97-1.

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 do not believe the reportable condition indicated is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Stone 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, Big Stone County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as items 04-1 and 04-2.

This report is intended solely for the information and use of the Board of Commissioners and management 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: October 25, 2005