

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

**STEVENS COUNTY
MORRIS, MINNESOTA**

YEAR ENDED DECEMBER 31, 2005

Description of the Office of the State Auditor

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

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

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

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

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

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

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

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

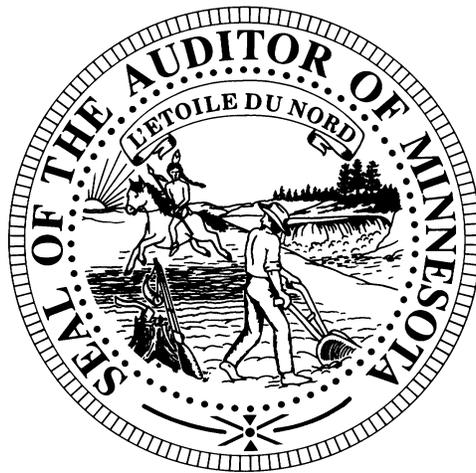
The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Year Ended December 31, 2005



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

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**STEVENS COUNTY
MORRIS, MINNESOTA**

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MORRIS, MINNESOTA**

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**STEVENS COUNTY
MORRIS, MINNESOTA**

**ORGANIZATION
DECEMBER 31, 2005**

			<u>Term Expires</u>
Elected			
Commissioners			
Board Member	Paul Watzke	District 1	January 2009
Chair	Herb Kloos	District 2	January 2007
Board Member	Neal Hofland	District 3	January 2009
Board Member	Larry Sayre	District 4	January 2009
Board Member	Robert Stevenson	District 5	January 2007
Attorney	Charles Glasrud		January 2007
Auditor/Treasurer	Neil Wiese		January 2007
County Recorder	Virginia Mahoney		January 2007
Registrar of Titles	Virginia Mahoney		January 2007
County Sheriff	Randy Willis		January 2007
Appointed			
Assessor	Judy Thorstad		December 2008
County Coordinator	Jim Thoreen		Indefinite
Coroner	Michael Busian, M.D.		January 2006
Highway Engineer	Brian Giese		Indefinite
Veterans Service Officer	Jim Neal		Indefinite
Human Services Director	Joanie Murphy		Indefinite

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

Board of County Commissioners
Stevens County

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

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2006, on our consideration of Stevens 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/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 13, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

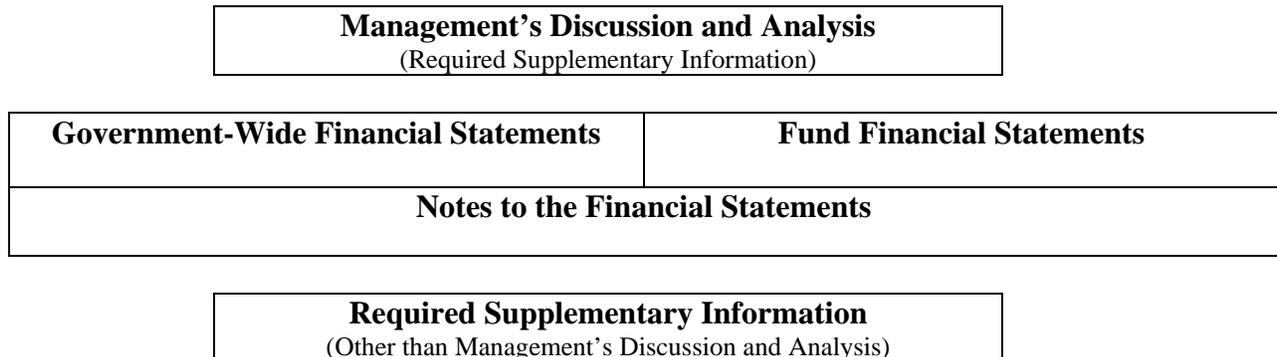
**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2005
(Unaudited)**

INTRODUCTION

Stevens County's Management's Discussion and Analysis (MD&A) presents a summary of Stevens County's financial activities for the fiscal year ended December 31, 2005. It will focus on the current year's activities and changes and should be read in combination with Stevens County's financial statements and the notes to the financial statements. Stevens County's activities are governmental in nature, with the exception of a County-owned and run ambulance service.

OVERVIEW OF THE FINANCIAL STATEMENTS

Stevens County's MD&A serves as an introduction to the basic financial statements. Stevens County's basic financial statements consist of three parts: government-wide financial statements, fund financial statements, and notes to the financial statements. The MD&A (this section) and certain budgetary comparison schedules are required to accompany the basic financial statements and, therefore, are included as required supplementary information. The following chart demonstrates how the different pieces are inter-related.



Stevens County presents two government-wide financial statements. They are the Statement of Net Assets and the Statement of Activities. These two government-wide financial statements provide information about the activities of Stevens County as a whole and present a longer-term view of Stevens County's finances. Stevens County's fund financial statements follow these two government-wide financial statements. For governmental activities, these statements tell how Stevens County financed these services in the short term as well as what remains for future spending. Fund financial statements also report Stevens County's operations in more detail than

the government-wide statements by providing information about Stevens County's most significant/major funds. For proprietary activities, these statements provide detailed financial information relating to Stevens County's ambulance service. The remaining statement provides financial information about activities for which the County acts solely as a trustee or agent for the benefit of those outside of the government.

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

The Statement of Net Assets and the Statement of Activities report information about Stevens County as a whole and about its activities in a way that helps the reader determine whether Stevens County's financial condition has improved or declined as a result of the current year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies.

These two statements consider all of Stevens County's current year revenues and expenses regardless of when Stevens County receives the revenue or pays the expense. These two statements report Stevens County's net assets and changes in them. You can think of Stevens County's net assets--the difference between assets and liabilities--as one way to measure Stevens County's financial health or financial position. Over time, increases or decreases in the County's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in Stevens County's property tax base and the general economic conditions of the state and County, to assess the overall health of Stevens County.

Fund Financial Statements

Fund financial statements are prepared for the County's major funds. These fund statements are divided into governmental and proprietary funds. The governmental funds are constructed on a modified accrual basis and the proprietary funds on a full accrual basis. In Stevens County, a governmental fund balance sheet is provided for General, Road and Bridge, Human Services, Ditch, and nonmajor funds. All but one of Stevens County's basic services are reported in the governmental fund category. Governmental fund statements focus on how money flows into and out of these funds and shows the balances remaining at year-end available for expenditures. The modified accrual accounting method measures cash and other financial assets such as investments that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of Stevens County's general government operations and the basic services it provides. Stevens County's governmental fund information helps determine whether there are financial resources available that Stevens County can spend in the near future to finance its programs. A reconciliation statement follows the fund statement and depicts the relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds. The proprietary fund on ambulance operations includes a statement of fund net assets, a statement showing operating and nonoperating revenues, expenses, and the change in net assets, and a statement of cash flow for the year.

FINANCIAL HIGHLIGHTS

- Governmental activities' total net assets are \$31,425,046, of which Stevens County has invested \$22,890,539 in capital assets, and \$340,620 is restricted to specific uses by Stevens County; \$8,193,887 is unrestricted.
- Proprietary (business-type) activity (ambulance service) includes total net assets of \$519,278, of which \$99,480 is invested in capital assets; \$419,798 is unrestricted.
- Stevens County's total net assets (governmental activities and business-type activities) total \$31,944,324, of which \$22,990,019 is invested in capital assets, and \$340,620 of the total net assets is restricted for specific uses; \$8,613,685 is unrestricted.
- The expenses of Stevens County's governmental activities for the year were \$9,066,241. General property tax revenues and other revenue sources totaling \$4,949,650 funded Stevens County's governmental activities' net cost of \$3,957,303.
- Stevens County's governmental funds' fund balances increased by \$55,373 during 2005.
- During 2005, Stevens County did not issue any new general obligation debt and does not have any outstanding general obligation debt.
- Long-term liabilities due to compensated absences total \$304,651, with \$148,188 due within one year.

THE COUNTY AS A WHOLE

The analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of Stevens County's governmental and business-type activities.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Assets						
Current and other assets	\$ 9,157,559	\$ 9,157,596	\$ 446,782	\$ 378,867	\$ 9,604,341	\$ 9,536,463
Capital assets	22,890,539	22,026,203	99,480	137,139	22,990,019	22,163,342
Total Assets	\$ 32,048,098	\$ 31,183,799	\$ 546,262	\$ 516,006	\$ 32,594,360	\$ 31,699,805
Liabilities						
Long-term debt outstanding	\$ 290,002	\$ 249,377	\$ 14,649	\$ 9,527	\$ 304,651	\$ 258,904
Other liabilities	333,050	242,392	12,335	3,406	345,385	245,798
Total Liabilities	\$ 623,052	\$ 491,769	\$ 26,984	\$ 12,933	\$ 650,036	\$ 504,702

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Net Assets						
Invested in capital assets, net of debt	\$ 22,890,539	\$ 22,026,203	\$ 99,480	\$ 137,139	\$ 22,990,019	\$ 22,163,342
Restricted	340,620	133,522	-	-	340,620	133,522
Unrestricted	8,193,887	8,532,305	419,798	365,934	8,613,685	8,898,239
Total Net Assets	\$ 31,425,046	\$ 30,692,030	\$ 519,278	\$ 503,073	\$ 31,944,324	\$ 31,195,103

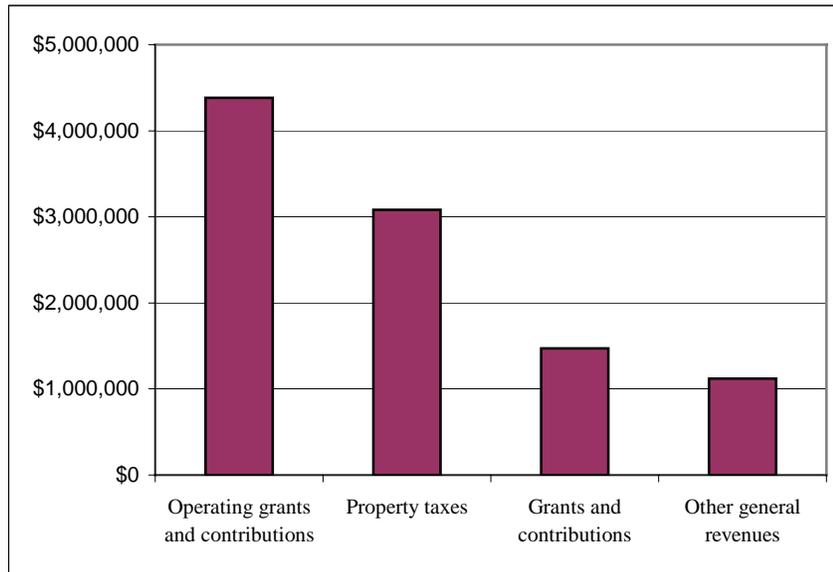
Stevens County's total net assets for the year ended December 31, 2005, total \$31,944,324. Unrestricted net assets totaling \$8,613,685 are available to Stevens County to finance day-to-day operations. Of the unrestricted net assets, \$8,193,887 is available for governmental activities, and \$419,798 is available for business-type activities.

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues						
Fees, fines, charges, and other	\$ 724,432	\$ 689,012	\$ 788,022	\$ 590,859	\$ 1,512,454	\$ 1,279,871
Operating grants and contributions	4,384,506	2,614,300	9,225	61,655	4,393,731	2,675,955
Capital grants and contributions	-	1,996,511	-	-	-	1,996,511
General revenues						
Property taxes	3,083,034	2,904,168	-	-	3,083,034	2,904,168
Other taxes	-	25	-	-	-	25
Payment in lieu of tax	29,482	28,592	-	-	29,482	28,592
Grants and contributions	1,472,273	1,280,137	-	-	1,472,273	1,280,137
Other general revenues	364,861	364,425	-	-	364,861	364,425
Total Revenues	\$ 10,058,588	\$ 9,877,170	\$ 797,247	\$ 652,514	\$ 10,855,835	\$ 10,529,684
Expenses						
General government	\$ 1,677,403	\$ 1,734,194	\$ -	\$ -	\$ 1,677,403	\$ 1,734,194
Public safety	1,047,022	897,846	-	-	1,047,022	897,846
Highways and streets	2,949,062	2,316,829	-	-	2,949,062	2,316,829
Sanitation	182,262	164,086	-	-	182,262	164,086
Human services	2,459,106	2,199,955	-	-	2,459,106	2,199,955
Health	101,948	101,948	-	-	101,948	101,948
Culture and recreation	209,984	406,396	-	-	209,984	406,396
Conservation of natural resources	380,954	355,968	-	-	380,954	355,968
Economic development	58,500	57,000	-	-	58,500	57,000
Ambulance	-	-	841,042	784,037	841,042	784,037
Total Expenses	\$ 9,066,241	\$ 8,234,222	\$ 841,042	\$ 784,037	\$ 9,907,283	\$ 9,018,259
Increase (Decrease) in Net Assets Before Transfers	\$ 992,347	\$ 1,642,948	\$ (43,795)	\$ (131,523)	\$ 948,552	\$ 1,511,425
Transfers	(60,000)	(58,990)	60,000	58,990	-	-
Increase (Decrease) in Net Assets	\$ 932,347	\$ 1,583,958	\$ 16,205	\$ (72,533)	\$ 948,552	\$ 1,511,425

Stevens County’s total revenues for the year ended December 31, 2005, were \$10,855,835. The total cost of Stevens County’s programs and services for the year ended December 31, 2005, was \$9,907,283. The net assets for Stevens County increased by \$948,552.

Governmental Activities Revenues



Governmental Activities

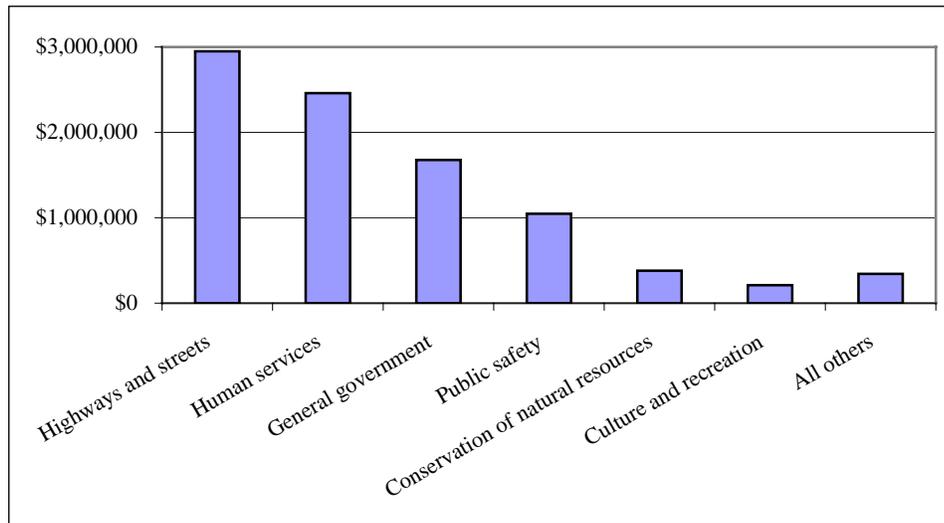
Revenues for Stevens County’s governmental activities for 2005 were \$10,058,588. Stevens County’s costs for all governmental activities for 2005 were \$9,066,241. As shown in Stevens County’s Statement of Activities, the amount that Stevens County taxpayers ultimately financed for these governmental activities through local property taxation was \$3,083,034, because \$724,432 of the cost was paid by those who directly benefited from the programs, and \$4,384,506 was paid by other governments and organizations that subsidized certain programs with operating grants and contributions. Stevens County paid for the remaining “public benefit” portion of governmental activities with \$1,472,273 in other grants and contributions, interest income of \$236,747, payments in lieu of taxes of \$29,482, and other miscellaneous income of \$128,114.

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

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Program Expenses				
Highways and streets	\$ 2,949,062	\$ 2,316,829	\$ 122,335	\$ (912,262)
Human services	2,459,106	2,199,955	1,056,507	890,353
General government	1,677,403	1,734,194	1,394,109	1,453,428
Public safety	1,047,022	897,846	851,724	742,867
Conservation of natural resources	380,954	355,968	129,358	165,720
Culture and recreation	209,984	406,396	152,005	363,987
All others	342,710	323,034	251,265	230,306
Total Program Expenses	\$ 9,066,241	\$ 8,234,222	\$ 3,957,303	\$ 2,934,399

Governmental Activities Expenses



Business-Type Activities

Operating revenues of Stevens County’s business-type activities (see Exhibit 8) for the year ended December 31, 2005, were \$788,022, and nonoperating revenues were \$9,225. Expenses of Stevens County’s business-type activities (see Table 2) for 2005 were \$841,042, leaving a net loss of \$43,795 before transfer in from the General Fund of \$60,000, resulting in an increase in net assets of \$16,205.

This compares with total operating revenues of \$590,859 and with total nonoperating revenues of \$61,655 for the year ended December 31, 2004. Operating expenses were \$784,037 for the year ended December 31, 2004, resulting in a net loss before operating transfers of \$131,523. In 2004, \$58,990 was transferred in, resulting in a decrease in net assets of \$72,533.

THE COUNTY'S FUNDS

At December 31, 2005, the governmental funds (see the balance sheet) showed a combined fund balance of \$8,130,762 that is above last year's total of \$8,075,389 (the 2004 government fund balance was shown as \$8,274,720 previously, but there was a prior period adjustment downward of \$199,331 for County Highway Department inventory that was made later) by \$55,373 after adjusting for decrease in inventory for the Road and Bridge Special Revenue Fund of \$8,871.

General Fund Budgetary Highlights

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

General Fund actual revenues exceeded budget expectations by \$392,551, although taxes collected were \$209,792 less than budgeted; this was offset by an increase in intergovernmental revenue of \$619,910. Actual expenditures exceeded budgeted expenditures by \$465,461.

Public safety expenditures exceeded the budgeted amount by \$148,513.

Other variations from the budget occurred when the Historical Society received an unbudgeted appropriation of \$35,000 for building remodeling approved by the Board of Commissioners.

The Auditor/Treasurer's Office spent \$48,820 less than budgeted due to not expanding the office staff by one that had been budgeted for, but this gain was partially offset by auditing and accounting service fees exceeding the budgeted amount by \$17,604 due to Governmental Accounting Standards Board Statement 34 requirements.

Another variation resulted from the unbudgeted transactions from gas tax passed through to the townships in the amount of \$188,714, shown as intergovernmental revenue and intergovernmental expenditures in the financial statements.

Also, the Commissioners approved an unbudgeted request for \$80,798 for snowmobile trails, which was offset by a state grant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table 4
Capital Assets at Year-End
(Net of Depreciation)

	Governmental Activities		Business-Type Activities	
	2005	2004	2005	2004
Land	\$ 883,026	\$ 832,217	\$ 6,000	\$ 6,000
Construction in progress	70,212	49,381	-	-
Other improvements	88,454	73,753	-	-
Buildings and improvements	1,203,536	1,208,858	64,094	69,920
Machinery, furniture, and equipment	1,268,450	1,361,045	29,386	61,219
Infrastructure	19,376,861	18,500,949	-	-
Totals	\$ 22,890,539	\$ 22,026,203	\$ 99,480	\$ 137,139

The Stevens County's fiscal year 2006 capital outlay budget plans for expenditures of \$379,811. The County Highway Department plans for major equipment purchases of \$180,000, Human Services for a new car for \$12,811, the Sheriff's office \$54,000 for two new squad cars and \$4,000 for the 911 system, the Ambulance Service \$102,000 for vehicles and equipment reconditioning, plus additional furniture and equipment purchases of \$9,000 for the Recorder's and Auditor/Treasurer's offices, and \$15,000 for building improvements and \$3,000 for furniture and miscellaneous for Courthouse operations. Remodeling plans for the Courthouse and the building of a new jail facility will be considered in 2006 and, if approved, will require the use of unbudgeted funds from the General Fund reserves.

Debt

Stevens County's long-term liabilities are for compensated absences, and the County has no debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The State of Minnesota finances have been improving, and the state could achieve a balanced budget.
- Stevens County's net tax capacity rates have not seen significant change even though the overall net tax levy has continued to increase.
- Stevens County's unemployment rate continues to be one of the lowest in the state.
- County expenditures for 2006 are budgeted to decrease 1.2 percent versus 2005.

- Despite the reduction in expenditures, the net property tax levy is planned to increase 7.25 percent from 2005 due to a decrease in state program aid of 2.14 percent, a decrease of 4.47 percent in projected revenues, and to no spend-down of County reserves as opposed to 2005.
- Planning continues for possible courthouse renovation and a future jail. If both or either is proceeded on, it is likely that County reserves will be spent down, which would reduce the needed levy for a significant portion of the cost.
- A greater demand for services.
- Settling union contracts and employment related issues would affect the 2006 budget.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

Stevens County's financial reports provide citizens, taxpayers, customers, investors, and creditors with a general overview of Stevens County's finances, and it shows Stevens County's accountability for the money it receives and spends.

If you have questions about this report, or need additional financial information, contact Neil Wiese, Stevens County Auditor/Treasurer, by phone at 320-589-7409, by email at neilwiese@co.stevens.mn.us, or by mail to Stevens County Courthouse, 400 Colorado Avenue, Morris, Minnesota 56267.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 1

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

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and pooled investments	\$ 8,039,004	\$ 237,198	\$ 8,276,202
Taxes receivable			
Current - net	16,531	-	16,531
Prior - net	3,313	-	3,313
Special assessments receivable			
Deferred - net	405,512	-	405,512
Accounts receivable - net	17,704	211,365	229,069
Accrued interest receivable	55,519	-	55,519
Internal balances	1,781	(1,781)	-
Due from other governments	587,882	-	587,882
Inventories	30,313	-	30,313
Capital assets			
Non-depreciable	953,238	6,000	959,238
Depreciable - net of accumulated depreciation	21,937,301	93,480	22,030,781
Total Assets	\$ 32,048,098	\$ 546,262	\$ 32,594,360
<u>Liabilities</u>			
Accounts payable	\$ 128,458	\$ 3,032	\$ 131,490
Salaries payable	33,154	9,303	42,457
Contracts payable	91,998	-	91,998
Due to other governments	79,440	-	79,440
Long-term liabilities			
Due within one year	139,988	8,200	148,188
Due in more than one year	150,014	6,449	156,463
Total Liabilities	\$ 623,052	\$ 26,984	\$ 650,036
<u>Net Assets</u>			
Invested in capital assets	\$ 22,890,539	\$ 99,480	\$ 22,990,019
Restricted for			
General government	126,268	-	126,268
Public safety	11,817	-	11,817
Highways and streets	201,643	-	201,643
Other purposes	892	-	892
Unrestricted	8,193,887	419,798	8,613,685
Total Net Assets	\$ 31,425,046	\$ 519,278	\$ 31,944,324

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

	Expenses	Program Fees, Charges, Fines, and Other
Functions/Programs		
Governmental activities		
General government	\$ 1,677,403	\$ 253,865
Public safety	1,047,022	24,158
Highways and streets	2,949,062	231,901
Sanitation	182,262	90,655
Human services	2,459,106	123,751
Health	101,948	-
Culture and recreation	209,984	-
Conservation of natural resources	380,954	102
Economic development	58,500	-
Total governmental activities	\$ 9,066,241	\$ 724,432
Business-type activities		
Ambulance	841,042	788,022
Total	\$ 9,907,283	\$ 1,512,454

General revenues and transfers
Property taxes
Payments in lieu of tax
Grants and contributions not restricted to specific programs
Investment income
Miscellaneous
Transfers in (out)

Total general revenues and transfers

Change in Net Assets

Net Assets - Beginning, as restated in Note 1.E.

Net Assets - Ending

EXHIBIT 2

<u>Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>		
<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ 29,429	\$ (1,394,109)	\$ -	\$ (1,394,109)
171,140	(851,724)	-	(851,724)
2,594,826	(122,335)	-	(122,335)
-	(91,607)	-	(91,607)
1,278,848	(1,056,507)	-	(1,056,507)
790	(101,158)	-	(101,158)
57,979	(152,005)	-	(152,005)
251,494	(129,358)	-	(129,358)
-	(58,500)	-	(58,500)
\$ 4,384,506	\$ (3,957,303)	\$ -	\$ (3,957,303)
9,225	-	(43,795)	(43,795)
\$ 4,393,731	\$ (3,957,303)	\$ (43,795)	\$ (4,001,098)
	\$ 3,083,034	\$ -	\$ 3,083,034
	29,482	-	29,482
	1,472,273	-	1,472,273
	236,747	-	236,747
	128,114	-	128,114
	(60,000)	60,000	-
	\$ 4,889,650	\$ 60,000	\$ 4,949,650
	\$ 932,347	\$ 16,205	\$ 948,552
	30,492,699	503,073	30,995,772
	\$ 31,425,046	\$ 519,278	\$ 31,944,324

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUNDS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 3

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Nonmajor Fund</u>	<u>Total</u>
<u>Assets</u>						
Cash and pooled investments	\$ 3,534,716	\$ 1,148,735	\$ 2,849,592	\$ 89,702	\$ 377,422	\$ 8,000,167
Petty cash and change funds	450	50	-	-	-	500
Undistributed cash in agency funds	16,874	4,170	5,902	354	1,037	28,337
Departmental cash	10,000	-	-	-	-	10,000
Taxes receivable						
Current	8,999	3,016	4,268	248	-	16,531
Prior	1,702	707	904	-	-	3,313
Special assessments receivable						
Deferred	-	-	-	405,512	-	405,512
Accounts receivable	3,430	1,270	11,419	-	1,585	17,704
Accrued interest receivable	55,519	-	-	-	-	55,519
Due from other funds	11,002	6,169	-	-	-	17,171
Due from other governments	23,881	387,905	176,096	-	-	587,882
Inventories	-	30,313	-	-	-	30,313
Advance to other funds	450,130	-	-	-	-	450,130
Total Assets	<u>\$ 4,116,703</u>	<u>\$ 1,582,335</u>	<u>\$ 3,048,181</u>	<u>\$ 495,816</u>	<u>\$ 380,044</u>	<u>\$ 9,623,079</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

**EXHIBIT 3
(Continued)**

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

	<u>General</u>	<u>Road and Bridge</u>	<u>Human Services</u>	<u>Ditch</u>	<u>Nonmajor Fund</u>	<u>Total</u>
<u>Liabilities and Fund Balances</u>						
Liabilities						
Accounts payable	\$ 41,855	\$ 13,780	\$ 69,248	\$ 3,575	\$ -	\$ 128,458
Salaries payable	3,426	24,612	5,116	-	-	33,154
Contracts payable	-	89,427	-	2,571	-	91,998
Due to other funds	2,468	-	10,854	735	1,333	15,390
Due to other governments	55,946	14	23,480	-	-	79,440
Deferred revenue - unavailable	8,362	275,499	3,361	405,512	1,013	693,747
Advance from other funds	-	-	-	450,130	-	450,130
Total Liabilities	\$ 112,057	\$ 403,332	\$ 112,059	\$ 862,523	\$ 2,346	\$ 1,492,317
Fund Balances						
Reserved for						
Inventories	\$ -	\$ 30,313	\$ -	\$ -	\$ -	\$ 30,313
Boat and water	455	-	-	-	-	455
Advance to other funds	450,130	-	-	-	-	450,130
DARE	6,780	-	-	-	-	6,780
Missing heirs	892	-	-	-	-	892
Real estate tax shortfall	84,496	-	-	-	-	84,496
Recorder's equipment purchases	32,814	-	-	-	-	32,814
Recorder's compliance	8,958	-	-	-	-	8,958
Sheriff's contingency	4,582	-	-	-	-	4,582
State aid highway projects	-	10,527	-	-	-	10,527
Unreserved						
Designated for						
Future expenditures	300,000	150,000	150,000	-	-	600,000
Cash flows	1,850,375	873,971	1,222,655	-	-	3,947,001
Capital improvements	1,020,210	-	-	-	-	1,020,210
Compensated absences	97,846	114,192	77,963	-	-	290,001
Undesignated	147,108	-	1,485,504	(366,707)	-	1,265,905
Unreserved in nonmajor special revenue fund	-	-	-	-	377,698	377,698
Total Fund Balances	\$ 4,004,646	\$ 1,179,003	\$ 2,936,122	\$ (366,707)	\$ 377,698	\$ 8,130,762
Total Liabilities and Fund Balances	\$ 4,116,703	\$ 1,582,335	\$ 3,048,181	\$ 495,816	\$ 380,044	\$ 9,623,079

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 4

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

Fund balances - total governmental funds (Exhibit 3)	\$ 8,130,762
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.	22,890,539
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	693,747
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Compensated absences	<u>(290,002)</u>
Net assets of governmental activities (Exhibit 1)	<u>\$ 31,425,046</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 5

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

	General	Road and Bridge	Human Services	Ditch	Nonmajor Fund	Total
Revenues						
Taxes	\$ 1,715,693	\$ 567,011	\$ 802,191	\$ -	\$ -	\$ 3,084,895
Special assessments	-	-	-	127,219	-	127,219
Licenses and permits	22,497	-	-	-	-	22,497
Intergovernmental	1,432,230	2,605,503	1,664,252	-	2,161	5,704,146
Charges for services	213,813	90,739	112,533	-	83,290	500,375
Fines and forfeits	17,364	-	3,193	-	-	20,557
Investment earnings	236,747	-	-	-	-	236,747
Miscellaneous	152,597	141,067	8,025	-	7,200	308,889
Total Revenues	\$ 3,790,941	\$ 3,404,320	\$ 2,590,194	\$ 127,219	\$ 92,651	\$ 10,005,325
Expenditures						
Current						
General government	\$ 1,722,174	\$ -	\$ -	\$ -	\$ -	\$ 1,722,174
Public safety	1,054,429	-	-	-	-	1,054,429
Highways and streets	-	3,493,780	-	-	-	3,493,780
Sanitation	147,795	-	-	-	77,848	225,643
Human services	-	-	2,445,310	-	-	2,445,310
Health	101,948	-	-	-	-	101,948
Culture and recreation	209,984	-	-	-	-	209,984
Conservation of natural resources	217,744	-	-	163,395	-	381,139
Economic development	58,500	-	-	-	-	58,500
Intergovernmental	188,174	-	-	-	-	188,174
Total Expenditures	\$ 3,700,748	\$ 3,493,780	\$ 2,445,310	\$ 163,395	\$ 77,848	\$ 9,881,081
Excess of Revenues Over (Under) Expenditures	\$ 90,193	\$ (89,460)	\$ 144,884	\$ (36,176)	\$ 14,803	\$ 124,244
Other Financing Sources (Uses)						
Transfers in	\$ 48,663	\$ -	\$ -	\$ -	\$ -	\$ 48,663
Transfers out	(60,000)	-	-	-	(48,663)	(108,663)
Total Other Financing Sources (Uses)	\$ (11,337)	\$ -	\$ -	\$ -	\$ (48,663)	\$ (60,000)
Net Change in Fund Balances	\$ 78,856	\$ (89,460)	\$ 144,884	\$ (36,176)	\$ (33,860)	\$ 64,244
Fund Balances - January 1	\$ 3,925,790	\$ 1,476,665	\$ 2,791,238	\$ (330,531)	\$ 411,558	\$ 8,274,720
Prior period adjustment	-	(199,331)	-	-	-	(199,331)
Fund Balances - January 1, as restated	\$ 3,925,790	\$ 1,277,334	\$ 2,791,238	\$ (330,531)	\$ 411,558	\$ 8,075,389
Increase (decrease) in reserved for inventories	\$ -	\$ (8,871)	\$ -	\$ -	\$ -	\$ (8,871)
Fund Balances - December 31	\$ 4,004,646	\$ 1,179,003	\$ 2,936,122	\$ (366,707)	\$ 377,698	\$ 8,130,762

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

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 6

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

Net change in fund balances - total governmental funds (Exhibit 5) \$ 64,244

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

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

Deferred revenue - December 31	\$ 693,747	
Deferred revenue - January 1	(640,484)	53,263

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

Expenditures for general capital assets, including infrastructure	\$ 1,971,615	
Current year depreciation	(1,107,279)	864,336

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	\$ (40,625)	
Change in inventories	(8,871)	(49,496)

Change in net assets of governmental activities (Exhibit 2) \$ 932,347

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PROPRIETARY FUND

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**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 7

**STATEMENT OF NET ASSETS
AMBULANCE ENTERPRISE FUND
DECEMBER 31, 2005**

Assets

Current assets

Cash and pooled investments	\$	236,398
Petty cash and change funds		800
Accounts receivable - net		211,365
Total current assets	\$	448,563

Noncurrent assets

Capital assets		
Nondepreciable	\$	6,000
Depreciable - net		93,480
Total noncurrent assets	\$	99,480

Total Assets

\$ 548,043

Liabilities

Current liabilities

Accounts payable	\$	3,032
Salaries payable		9,303
Compensated absences payable - current		8,200
Due to other funds		1,781
Total current liabilities	\$	22,316

Noncurrent liabilities

Compensated absences payable - long-term		6,449
Total Liabilities	\$	28,765

Net Assets

Invested in capital assets	\$	99,480
Unrestricted		419,798
Total Net Assets	\$	519,278

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
AMBULANCE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

Operating Revenues	
Charges for services	\$ 774,399
Miscellaneous	<u>13,623</u>
Total Operating Revenues	\$ 788,022
Operating Expenses	
Personal services	\$ 464,516
Ambulance operations	157,663
Emergency medical services training	13,781
Bad debts	167,423
Depreciation	<u>37,659</u>
Total Operating Expenses	\$ 841,042
Operating Income (Loss)	\$ (53,020)
Nonoperating Revenues (Expenses)	
Intergovernmental	\$ 7,975
Gifts and contributions	<u>1,250</u>
Total Nonoperating Revenues (Expenses)	\$ 9,225
Income (Loss) Before Transfers	\$ (43,795)
Transfers in	<u>60,000</u>
Change in Net Assets	\$ 16,205
Net Assets - January 1	<u>503,073</u>
Net Assets - December 31	<u><u>\$ 519,278</u></u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

EXHIBIT 9

**STATEMENT OF CASH FLOWS
AMBULANCE ENTERPRISE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Receipts from customers and users	\$ 602,469
Payments to suppliers	(170,013)
Payments to employees	(451,567)
	(19,111)
Net cash provided by (used in) operating activities	\$ (19,111)
Cash Flows from Noncapital Financing Activities	
Transfers in	\$ 60,000
Contributions	1,250
Intergovernmental	7,975
	69,225
Net cash provided by (used in) noncapital financing activities	\$ 69,225
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 50,114
Cash and Cash Equivalents at January 1	187,084
Cash and Cash Equivalents at December 31	\$ 237,198
Cash and Cash Equivalents - Exhibit 7	
Cash and pooled investments	\$ 236,398
Petty cash and change funds	800
	237,198
Total Cash and Cash Equivalents	\$ 237,198
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	
Operating income (loss)	\$ (53,020)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 37,659
Bad debts expense	167,423
(Increase) decrease in accounts receivable	(185,553)
Increase (decrease) in accounts payable	1,102
Increase (decrease) in salaries payable	7,827
Increase (decrease) in compensated absences payable	5,122
Increase (decrease) in due to other funds	329
	33,909
Total adjustments	\$ 33,909
Net Cash Provided by (Used in) Operating Activities	\$ (19,111)

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FIDUCIARY FUNDS

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STEVENS COUNTY
MORRIS, MINNESOTA

EXHIBIT 10

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency</u>
<u>Assets</u>	
Cash and pooled investments	\$ 919,472
Due from other governments	<u>26</u>
Total Assets	<u>\$ 919,498</u>
<u>Liabilities</u>	
Due to other governments	\$ 896,044
Advance taxes	<u>23,454</u>
Total Liabilities	<u>\$ 919,498</u>

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**STEVENS COUNTY
MORRIS, MINNESOTA**

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

1. Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

Stevens County was established February 20, 1862, and is an organized county having the powers, duties, and privileges granted counties by Minn. Stat. ch. 373. The County is governed by a five-member Board of Commissioners elected from districts within the County. The Board is organized with a chair and vice chair elected at the annual meeting in January of each year.

Joint Ventures

The County participates in several joint ventures described in Note 6.C. The County also participates in jointly-governed organizations and a related organization described in Note 6.D. and Note 6.E., respectively.

B. Basic Financial Statements

1. Government-Wide Statements

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

1. Government-Wide Statements (Continued)

taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

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

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

2. Fund Financial Statements

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

B. Basic Financial Statements

2. Fund Financial Statements (Continued)

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

The County reports the following major governmental funds:

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

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

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

The 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.

The County reports the following major enterprise fund:

The Ambulance Fund is used to account for the operations of the County ambulance service. Financing is provided by user service charges and a County subsidy.

Additionally, the County reports the following fund type:

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary fund, 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. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Stevens County considers all revenues to be available if 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 long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first and then unrestricted resources as needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Cash Equivalents

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2005, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds received investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2005 were \$236,747.

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

3. Receivables and Payables

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

All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

All receivables are shown net of an allowance for uncollectibles.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

3. Receivables and Payables (Continued)

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

4. Inventories

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 in proprietary funds and at the government-wide level are recorded as expenses when consumed.

5. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the County did not have any capitalized interest.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets, Liabilities, and Net Assets or Equity

5. Capital Assets (Continued)

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

<u>Assets</u>	<u>Years</u>
Buildings	25 - 40
Improvements other than buildings	20 - 35
Public domain infrastructure	15 - 70
Furniture, equipment, and vehicles	3 - 15

6. Compensated Absences

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated annual and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Compensated absences are accrued when incurred in the government-wide and proprietary fund 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 and proprietary fund type fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

**STEVENS COUNTY
MORRIS, MINNESOTA**

1. Summary of Significant Accounting Policies

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

9. Fund Equity

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

10. Use of Estimates

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

E. Prior Period Adjustment

The fund balance at January 1, 2005, for the Road and Bridge Special Revenue Fund was decreased by \$199,331 to correct an overstatement of inventory from 2004. The fund balance for the Road and Bridge Special Revenue Fund was adjusted from \$1,476,665 to \$1,277,334.

The restatement of inventory also affected the government-wide financial statements. Net assets of governmental activities were reduced from \$30,692,030 to \$30,492,699.

**STEVENS COUNTY
MORRIS, MINNESOTA**

2. Stewardship, Compliance, and Accountability

A. Deficit Fund Equity

Ditch Fund Deficits

Of 30 drainage systems, 14 have incurred expenditures in excess of revenues and available resources. These deficits will be eliminated with future special assessment levies against benefited properties. The following summary shows the fund balances of the Ditch Special Revenue Fund as of December 31, 2005.

Account balances	\$	17,762
Account deficits		(384,469)
Fund Balance	\$	(366,707)

For internal purposes, the County accounts for its ditches on the accrual basis. Under the full accrual basis where revenues are recognized when earned, the Ditch Fund reports a positive fund balance of \$38,805 with only six ditches reporting deficits.

B. Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2005.

	Expenditures	Final Budget	Excess
General Fund	\$ 3,700,748	\$ 3,235,287	\$ 465,461
Human Services Special Revenue Fund	2,445,310	2,422,657	22,653

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

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

Cash and pooled investments	
Governmental activities	\$ 8,039,004
Business-type activities	237,198
Fiduciary funds - agency funds	<u>919,472</u>
 Total Cash and Investments	 <u>\$ 9,195,674</u>

a. Deposits

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

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

Custodial Credit Risk Deposits

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as “high risk” by Minn. Stat. § 118A.04, subd.6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers’ acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The County does not have additional policies for the investment risks, described below, beyond complying with the requirements of Minnesota statutes.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments

b. Investments (Continued)

Interest Rate Risk

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

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The County invests only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The County does not have a policy on custodial credit risk. At December 31, 2005, \$295,455 of marketable certificates of deposit and \$3,610,272 of government securities were exposed to custodial credit risk because they were held by the counterparty.

Concentration of Credit Risk

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

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

Investment Type	Credit Risk		Concentration Risk	Interest Rate Risk	Carrying (Fair) Value
	Credit Rating	Rating Agency	Over 5 Percent of Portfolio	Maturity Date	
U.S. government agency securities					
Federal National Mortgage Association	AAA	Moody's		3/29/06	\$ 99,375
Federal National Mortgage Association	AAA	Moody's		2/15/07	292,218
Federal National Mortgage Association	AAA	Moody's		3/10/10	196,438
Federal National Mortgage Association	AAA	Moody's		7/1/11	189,338
Total Federal National Mortgage Association			11.7%		\$ 777,369
Federal Home Loan Mortgage Corporation	AAA	Moody's		4/27/07	\$ 195,760
Federal Home Loan Mortgage Corporation	AAA	Moody's		2/25/08	99,365
Federal Home Loan Mortgage Corporation	AAA	Moody's		5/1/14	150,684
Federal Home Loan Mortgage Corporation	AAA	Moody's		9/1/18	145,962
Total Federal Home Loan Mortgage Corporation			8.9%		\$ 591,771
Federal Home Loan Bank	AAA	Moody's		6/1/06	\$ 248,907
Federal Home Loan Bank	AAA	Moody's		11/28/06	98,500
Federal Home Loan Bank	AAA	Moody's		2/23/07	218,625
Federal Home Loan Bank	AAA	Moody's		4/13/07	145,782
Federal Home Loan Bank	AAA	Moody's		6/28/07	199,062
Federal Home Loan Bank	AAA	Moody's		11/28/07	98,729
Federal Home Loan Bank	AAA	Moody's		12/24/07	246,320
Federal Home Loan Bank	AAA	Moody's		5/21/08	245,158
Federal Home Loan Bank	AAA	Moody's		8/13/08	393,328
Federal Home Loan Bank	AAA	Moody's		1/22/09	144,000
Federal Home Loan Bank	AAA	Moody's		1/28/09	145,734
Federal Home Loan Bank	AAA	Moody's		3/8/10	196,062
Federal Home Loan Bank	AAA	Moody's		3/30/10	97,817
Federal Home Loan Bank	AAA	Moody's		5/14/13	246,123
Federal Home Loan Bank	AAA	Moody's		6/12/13	204,865
Federal Home Loan Bank	AAA	Moody's		5/22/18	147,405
Total Federal Home Loan Bank			46.3%		\$ 3,076,417

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

1. Deposits and Investments (Continued)

Investment Type	Credit Risk		Concentration Risk Over 5 Percent of Portfolio	Interest Rate Risk Maturity Date	Carrying (Fair) Value
	Credit Rating	Rating Agency			
Small Business Administration Loan Pool	N/R	N/A		9/25/12	\$ 88,381
Small Business Administration Loan Pool	N/R	N/A		7/25/15	56,372
Small Business Administration Loan Pool	N/R	N/A		6/25/20	122,553
Small Business Administration Loan Pool	N/R	N/A		7/25/20	39,695
Small Business Administration Loan Pool	N/R	N/A		2/25/21	23,907
Small Business Administration Loan Pool	N/R	N/A		11/25/21	34,364
Small Business Administration Loan Pool	N/R	N/A		7/25/23	114,076
Small Business Administration Loan Pool	N/R	N/A		4/25/24	23,543
Small Business Administration Loan Pool	N/R	N/A		4/25/24	131,217
Small Business Administration Loan Pool	N/R	N/A		8/25/24	4,458
Small Business Administration Loan Pool	N/R	N/A		10/25/24	203,890
Small Business Administration Loan Pool	N/R	N/A		11/25/25	160,731
Total Small Business Administration Loan Pool			15.1%		\$ 1,003,187
United States Department of Agriculture Loan Pool	N/R	N/A		4/1/11	\$ 194,380
United States Department of Agriculture Loan Pool	N/R	N/A		3/2/12	206,877
United States Department of Agriculture Loan Pool	N/R	N/A		6/15/19	148,500
Total United States Department of Agriculture Loan Pool			8.3%		\$ 549,757
Investment pools/mutual funds					
MAGIC Fund			N/A		\$ 58,716
Negotiable certificates of deposit			N/A		\$ 587,914
Total investments					\$ 6,645,131
Deposits					2,549,243
Change Funds					1,300
Total Cash and Investments					\$ 9,195,674

N/A - Not Applicable

N/R - Not Rated

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets (Continued)

2. Receivables

Receivables as of December 31, 2005, for the County's governmental activities and business-type 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	\$ 19,844	\$ -
Special assessments	405,512	257,400
Due from other governments	587,882	-
Accounts	17,704	-
Interest	55,519	-
Total Governmental Activities	\$ 1,086,461	\$ 257,400
Business-Type Activities		
Accounts (net)	\$ 211,365	\$ -

3. Capital Assets

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

Governmental Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 832,217	\$ 50,809	\$ -	\$ 883,026
Construction in progress	49,381	20,831	-	70,212
Total capital assets not depreciated	\$ 881,598	\$ 71,640	\$ -	\$ 953,238

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets

Governmental Activities (Continued)

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Capital assets depreciated				
Improvements other than buildings	\$ 96,718	\$ 19,868	\$ -	\$ 116,586
Building improvements	5,939	-	-	5,939
Buildings	2,896,172	54,159	-	2,950,331
Machinery, furniture, and equipment	3,377,838	285,355	161,786	3,501,407
Infrastructure	<u>27,537,171</u>	<u>1,540,593</u>	<u>-</u>	<u>29,077,764</u>
 Total capital assets depreciated	 <u>\$ 33,913,838</u>	 <u>\$ 1,899,975</u>	 <u>\$ 161,786</u>	 <u>\$ 35,652,027</u>
Less: accumulated depreciation for				
Improvements other than buildings	\$ 22,965	\$ 5,167	\$ -	\$ 28,132
Building improvements	322	297	-	619
Buildings	1,692,931	59,184	-	1,752,115
Machinery, furniture, and equipment	2,016,793	377,950	161,786	2,232,957
Infrastructure	<u>9,036,222</u>	<u>664,681</u>	<u>-</u>	<u>9,700,903</u>
 Total accumulated depreciation	 <u>\$ 12,769,233</u>	 <u>\$ 1,107,279</u>	 <u>\$ 161,786</u>	 <u>\$ 13,714,726</u>
 Total capital assets depreciated, net	 <u>\$ 21,144,605</u>	 <u>\$ 792,696</u>	 <u>\$ -</u>	 <u>\$ 21,937,301</u>
 Governmental Activities Capital Assets, Net	 <u><u>\$ 22,026,203</u></u>	 <u><u>\$ 864,336</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 22,890,539</u></u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

A. Assets

3. Capital Assets (Continued)

Business-Type Activities

	Beginning Balance	Increase	Decrease	Ending Balance
Capital assets not depreciated				
Land	\$ 6,000	\$ -	\$ -	\$ 6,000
Capital assets depreciated				
Land improvements	\$ 10,042	\$ -	\$ -	\$ 10,042
Buildings	145,660	-	-	145,660
Machinery, furniture, and equipment	379,528	-	27,712	351,816
Total capital assets depreciated	\$ 535,230	\$ -	\$ 27,712	\$ 507,518
Less: accumulated depreciation for				
Land improvements	\$ 10,042	\$ -	\$ -	\$ 10,042
Buildings	75,740	5,826	-	81,566
Machinery, furniture, and equipment	318,309	31,833	27,712	322,430
Total accumulated depreciation	\$ 404,091	\$ 37,659	\$ 27,712	\$ 414,038
Total capital assets depreciated, net	\$ 131,139	\$ (37,659)	\$ -	\$ 93,480
Business-Type Activities Capital Assets, Net	\$ 137,139	\$ (37,659)	\$ -	\$ 99,480

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

Governmental Activities	
General government	\$ 68,433
Public safety	27,332
Highways and streets, including depreciation of infrastructure assets	991,823
Human services	13,235
Sanitation	6,456
Total Depreciation Expense - Governmental Activities	<u>\$ 1,107,279</u>
Business-Type Activities	
Ambulance	<u>\$ 37,659</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds (Continued)

B. Interfund Receivables, Payables, and Transfers

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

1. Due To/From Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Human Services	\$ 10,854
	Ambulance	148
		<u>11,002</u>
Total Due to General Fund		\$ 11,002
Road and Bridge	General	\$ 2,468
	Ditch	735
	Solid Waste	1,333
	Ambulance	1,633
		<u>6,169</u>
Total Due to Road and Bridge Fund		\$ 6,169
Total Due To/From Other Funds		<u>\$ 17,171</u>

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

2. Advance From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Ditch	<u>\$ 450,130</u>

The purpose of the advances from the General Fund to the Ditch Special Revenue Fund is to provide cash flow for various drainage systems. The advances will be repaid in future years through the use of special assessments levied on the benefited parcels.

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

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

3. Interfund Transfers

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

Transfers to General Fund from Solid Waste Special Revenue Fund	\$ 48,663	Provide funding for recycling activities
Transfers to Ambulance Enterprise Fund from General Fund	<u>60,000</u>	Budget allocation
Total Transfers Between Funds	<u>\$ 108,663</u>	

C. Liabilities

1. Payables

Payables at December 31, 2005, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Accounts	\$ 128,458	\$ 3,032
Salaries	33,154	9,303
Contracts	91,998	-
Due to other governments	<u>79,440</u>	<u>-</u>
Total Payables	<u>\$ 333,050</u>	<u>\$ 12,335</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

3. Detailed Notes on All Funds

C. Liabilities (Continued)

2. Deferred Revenue

Deferred revenue as of December 31, 2005, for the County's governmental funds are as follows:

	<u>Unavailable</u>
Taxes and special assessments	\$ 419,227
State aid highway allotments	257,670
Charges for services	395
Grants	16,455
Total Governmental Activities	\$ 693,747

3. Construction and Other Significant Commitments

On December 20, 2005, the County Board approved the purchase of a new ambulance for the Ambulance Enterprise Fund. This vehicle was ordered in January 2006 for a cost of \$89,719.

4. Changes in Long-Term Liabilities

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

Governmental Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 249,377	\$ 295,646	\$ 255,021	\$ 290,002	\$ 139,988

Business Activities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Compensated absences	\$ 9,527	\$ 17,036	\$ 11,914	\$ 14,649	\$ 8,200

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Plan Description

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

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.

The 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 internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

Funding Policy

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

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

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

4. Pension Plans

A. Defined Benefit Plans

Funding Policy (Continued)

The County's contributions for the years ending December 31, 2005, 2004, and 2003, 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>
2005	\$ 190,964	\$ 23,212
2004	180,462	22,549
2003	172,981	23,370

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

B. Defined Contribution Plan

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

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 contribution for the year ended December 31, 2005, was \$2,173, equal to the contractually required contribution as set by state statute.

**STEVENS COUNTY
MORRIS, MINNESOTA**

5. Risk Management

The County is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; or natural disasters 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. The County self-insures for employee health and dental coverage. For other risk, the County carries commercial insurance. There were no significant reductions in insurance from the prior year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

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

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

6. Summary of Significant Contingencies and Other Items

A. Contingent Liabilities

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

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

B. Claims and Litigation

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

C. Joint Ventures

Area Agency on Aging

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

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

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

Complete financial information can be obtained from:

Area Agency on Aging
P. O. Box 726
Fergus Falls, Minnesota 56537

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Mid-State Community Health Services

Grant, Pope, Stevens, and Traverse Counties entered into a joint powers agreement creating and operating the Mid-State Community Health Services, pursuant to Minn. Stat. § 471.59. During 1994, Stevens Traverse Grant Public Health Nursing Service began receiving and administering the grant money.

Complete financial information can be obtained from:

Mid-State Community Health Services
621 Pacific Avenue
Morris, Minnesota 56267

Stevens Traverse Grant Public Health Nursing Service

Stevens County entered into a joint powers agreement creating and operating the Stevens Traverse Grant Public Health Nursing Service, pursuant to Minn. Stat. § 471.59. The Nursing Service is headquartered in Morris, Minnesota, and has other offices in Wheaton, Minnesota, and Elbow Lake, Minnesota.

The management of the Nursing Service is vested in the Joint Public Health Nursing Board, which consists of nine members, three Commissioners from Stevens County, Traverse County, and Grant County.

Financing is provided by state grants; appropriations from Stevens, Traverse, and Grant Counties; and charges for services. Stevens County's contribution for 2005 was \$101,948 (42.24 percent) based on a Cost Allocation Plan developed by Fiscal Officer Karen Folkens.

Complete financial statements for the Stevens Traverse Grant Public Health Nursing Service can be obtained from:

Stevens Traverse Grant Public Health Nursing Service
621 Pacific Avenue
Morris, Minnesota 56267

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures (Continued)

Rainbow Rider Transit Board

Douglas, Pope, Stevens, and Traverse Counties entered into a joint powers agreement to establish West Central Multi-County Joint Powers Transit Board (Rainbow Rider) effective December 1, 1994, and empowered under Minn. Stat. § 471.59. Effective January 13, 2000, the Board changed its name from West Central Multi-County Joint Powers Transit Board to Rainbow Rider Transit Board. The purpose of the Board is to provide coordinated service delivery and a funding source for public transportation. The Board consists of two members appointed by each member county from its County Board for terms of one year each.

Complete financial information can be obtained from:

Rainbow Rider
P. O. Box 136
Lowry, Minnesota 56349

Minnesota River Basin

The Minnesota River Basin Joint Powers Board was established July 12, 1995, by an agreement between Stevens 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.

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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Minnesota River Basin (Continued)

During 2005, Stevens County did not contribute any funds to the Joint Powers Board. Complete financial information can be obtained from:

Minnesota River Basin Joint Powers Board
Administration Building No. 14
600 East 4th Street
Chaska, Minnesota 55318

Prime West Central County-Based Purchasing Initiative

The Prime West Central County-Based Purchasing Initiative was established December 1998 by a joint powers agreement among Stevens County 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 Prime West Central County-Based Purchasing Initiative is vested in a Joint Powers Board, comprised 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 property purchased or owned pursuant to this agreement shall be sold and the proceeds, together with monies on hand, will be distributed to the current members 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.

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Prime West Central County-Based Purchasing Initiative (Continued)

Complete financial information can be obtained from:

Prime West Health Systems
Douglas County Courthouse
305 - 8th Avenue West
Alexandria, Minnesota 56308

Regional Fitness Center

Stevens County, along with the University of Minnesota, the City of Morris, and Independent School District Number 769, entered into a joint powers agreement under the authority of Minn. Stat. § 471.59 to establish and construct a Regional Fitness Center.

Control of the Regional Fitness Center is vested in a Joint Powers Board, composed of one member of the Stevens County Board of Commissioners, four members from the University of Minnesota, one member of the Morris City Council, one member of the School Board, and one member from the community at large.

In the event of termination of the joint powers agreement, any surplus monies generated by the operation of the Regional Fitness Center and any movable equipment shall be returned to the parties in proportion to their original contribution. The building, property, and all non-movable equipment and fixtures shall belong to the University of Minnesota.

Financing is provided by the 1998 Minnesota legislative appropriation of \$2,500,000 to the University of Minnesota and contributions in the amount of \$2,500,000 from the other parties to this agreement. Stevens County's share is \$200,000, to be paid over a period of five years. Operational and maintenance expenses will be covered by membership fees and other income generated by the Regional Fitness Center. During 2005, Stevens County did not contribute any funds to the Regional Fitness Center.

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

C. Joint Ventures

Regional Fitness Center (Continued)

Complete financial information can be obtained from:

Morris Area Schools
201 South Columbia Avenue
Morris, Minnesota 56267

Pomme de Terre River Association

The Pomme de Terre River Association Joint Powers Board was established August 11, 1981, by an agreement between Stevens 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 County Board of Commissioners and one representative from each soil and water conservation district board of supervisors included within the agreement.

During 2005, Stevens County did not contribute any funds to the Joint Powers Board.

Complete financial information can be obtained from:

Pomme de Terre Association Joint Powers Board
900 Roberts Street, Suite 104
Alexandria, Minnesota 56308

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

D. Jointly-Governed Organizations

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

Western Area City/County Co-op

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

District IV Transportation Planning

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

Stevens County Family Services Collaborative

The Stevens County Family Services Collaborative was established in 1997 under the authority of Minn. Stat. § 124D.23. The Collaborative includes Stevens County, Independent School District No. 771, the Stevens Traverse Grant Joint Powers Public Health Nursing Board, the Stevens Community Medical Center, and Rural Minnesota CEP, Inc. The purpose of the Collaborative is to provide coordinated family services and to commit resources to an integrated fund.

Control of the Stevens County Family Services Collaborative is vested in a Board of Directors, which is composed of one member appointed by each member party. The persons so appointed shall appoint two consumer representatives by the majority vote of the Board.

**STEVENS COUNTY
MORRIS, MINNESOTA**

6. Summary of Significant Contingencies and Other Items

D. Jointly-Governed Organizations

Stevens County Family Services Collaborative (Continued)

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

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

E. Related Organization

Stevens County Housing and Redevelopment Authority

The County Board chair appoints a voting majority on the Stevens County Housing and Redevelopment Authority (HRA). In 2005, Stevens County did not appropriate any funds to the HRA. The County's accountability for the organization does not extend beyond making the appointments.

7. Subsequent Events

Conduit Debt

The County authorized the issuance and sale of municipal industrial development revenue bonds (Darnen Dairy Project), Series 2006, in the original aggregate principal amount of \$3,800,000. The County is not obligated in any manner for repayment of the bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 1

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 1,925,485	\$ 1,925,485	\$ 1,715,693	\$ (209,792)
Licenses and permits	16,000	16,000	22,497	6,497
Intergovernmental	812,320	812,320	1,432,230	619,910
Charges for services	212,650	212,650	213,813	1,163
Fines and forfeits	14,000	14,000	17,364	3,364
Investment earnings	300,000	300,000	236,747	(63,253)
Miscellaneous	117,935	117,935	152,597	34,662
Total Revenues	\$ 3,398,390	\$ 3,398,390	\$ 3,790,941	\$ 392,551
Expenditures				
Current				
General government				
Commissioners	\$ 203,395	\$ 203,395	\$ 188,906	\$ 14,489
Law library	14,000	14,000	16,775	(2,775)
County coordinator	84,423	84,423	91,967	(7,544)
County auditor/treasurer	309,058	309,058	260,238	48,820
County assessor	163,939	163,939	161,418	2,521
Elections	1,000	1,000	547	453
Accounting and auditing	35,000	35,000	52,604	(17,604)
Data processing	144,702	144,702	147,551	(2,849)
Attorney	152,287	152,287	156,147	(3,860)
Recorder	206,000	206,000	164,690	41,310
Planning and zoning	36,737	36,737	13,535	23,202
Buildings and plant	333,419	333,419	334,051	(632)
Veterans service officer	28,203	28,203	38,978	(10,775)
Unallocated	85,800	85,800	94,767	(8,967)
Total general government	\$ 1,797,963	\$ 1,797,963	\$ 1,722,174	\$ 75,789
Public safety				
Sheriff	\$ 801,224	\$ 801,224	\$ 863,424	\$ (62,200)
Coroner	8,000	8,000	14,197	(6,197)
Safety coordinator	2,707	2,707	2,650	57
E-911 system	9,235	9,235	50,448	(41,213)
Probation and parole	62,750	62,750	63,325	(575)
Civil defense	22,000	22,000	59,957	(37,957)
Snowmobile safety enforcement	-	-	428	(428)
Total public safety	\$ 905,916	\$ 905,916	\$ 1,054,429	\$ (148,513)
Sanitation				
Recycling	\$ 97,781	\$ 97,781	\$ 85,667	\$ 12,114
Hazardous waste	54,031	54,031	62,128	(8,097)
Total sanitation	\$ 151,812	\$ 151,812	\$ 147,795	\$ 4,017

**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 1
(Continued)

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Expenditures				
Current (Continued)				
Health				
Nursing service	\$ -	\$ -	\$ 101,948	\$ (101,948)
Culture and recreation				
Historical society	\$ 45,176	\$ 45,176	\$ 80,176	\$ (35,000)
Regional library	49,010	49,010	49,010	-
Snowmobile trails	-	-	80,798	(80,798)
Total culture and recreation	\$ 94,186	\$ 94,186	\$ 209,984	\$ (115,798)
Conservation of natural resources				
County extension	\$ 99,960	\$ 99,960	\$ 93,134	\$ 6,826
Soil and water conservation	92,000	92,000	92,000	-
Agricultural inspections	9,950	9,950	7,178	2,772
Agricultural society/County fair	25,000	25,000	25,000	-
Predator control	-	-	432	(432)
Total conservation of natural resources	\$ 226,910	\$ 226,910	\$ 217,744	\$ 9,166
Economic development				
Industrial development	\$ 58,500	\$ 58,500	\$ 58,500	\$ -
Intergovernmental				
Highways and streets	\$ -	\$ -	\$ 188,174	\$ (188,174)
Total Expenditures	\$ 3,235,287	\$ 3,235,287	\$ 3,700,748	\$ (465,461)
Excess of Revenues Over (Under) Expenditures	\$ 163,103	\$ 163,103	\$ 90,193	\$ (72,910)
Other Financing Sources (Uses)				
Transfers in	\$ 48,701	\$ 48,701	\$ 48,663	\$ (38)
Transfers out	-	-	(60,000)	(60,000)
Total Other Financing Sources (Uses)	\$ 48,701	\$ 48,701	\$ (11,337)	\$ (60,038)
Net Change in Fund Balance	\$ 211,804	\$ 211,804	\$ 78,856	\$ (132,948)
Fund Balance - January 1	3,925,790	3,925,790	3,925,790	-
Fund Balance - December 31	\$ 4,137,594	\$ 4,137,594	\$ 4,004,646	\$ (132,948)

**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 2

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 636,290	\$ 636,290	\$ 567,011	\$ (69,279)
Intergovernmental	2,793,710	2,793,710	2,605,503	(188,207)
Charges for services	150,000	150,000	90,739	(59,261)
Miscellaneous	25,000	25,000	141,067	116,067
Total Revenues	\$ 3,605,000	\$ 3,605,000	\$ 3,404,320	\$ (200,680)
Expenditures				
Current				
Highways and streets	3,660,000	3,660,000	3,493,780	166,220
Excess of Revenues Over (Under)				
Expenditures	\$ (55,000)	\$ (55,000)	\$ (89,460)	\$ (34,460)
Fund Balance - January 1, as previously reported	\$ 1,476,665	\$ 1,476,665	\$ 1,476,665	\$ -
Prior period adjustment (Note 1.E.)	-	-	(199,331)	(199,331)
Fund Balance - January 1, as restated	\$ 1,476,665	\$ 1,476,665	\$ 1,277,334	\$ (199,331)
Increase (decrease) in reserved for inventories	\$ -	\$ -	\$ (8,871)	\$ (8,871)
Fund Balance - December 31	\$ 1,421,665	\$ 1,421,665	\$ 1,179,003	\$ (242,662)

**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 3

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

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 900,591	\$ 900,591	\$ 802,191	\$ (98,400)
Intergovernmental	1,422,461	1,422,461	1,664,252	241,791
Charges for services	63,605	63,605	112,533	48,928
Fines and forfeits	-	-	3,193	3,193
Miscellaneous	11,000	11,000	8,025	(2,975)
Total Revenues	\$ 2,397,657	\$ 2,397,657	\$ 2,590,194	\$ 192,537
Expenditures				
Current				
Human services				
Income maintenance	\$ 419,562	\$ 419,562	\$ 401,638	\$ 17,924
Social services	2,003,095	2,003,095	2,043,672	(40,577)
Total Expenditures	\$ 2,422,657	\$ 2,422,657	\$ 2,445,310	\$ (22,653)
Excess of Revenues Over (Under) Expenditures	\$ (25,000)	\$ (25,000)	\$ 144,884	\$ 169,884
Fund Balance - January 1	2,791,238	2,791,238	2,791,238	-
Fund Balance - December 31	\$ 2,766,238	\$ 2,766,238	\$ 2,936,122	\$ 169,884

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

1. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds, except the Ditch Special Revenue Fund. All annual appropriations lapse at fiscal year-end. The County adopted only a tax levy for the Ditch Special Revenue Fund.

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

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures Over Budget

The following is a summary of individual funds that had expenditures in excess of budget for the year ended December 31, 2005.

	<u>Expenditures</u>	<u>Final Budget</u>	<u>Excess</u>
General Fund	\$ 3,700,748	\$ 3,235,287	\$ 465,461
Human Services Special Revenue Fund	2,445,310	2,422,657	22,653

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SUPPLEMENTARY INFORMATION

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 4

**BUDGETARY COMPARISON SCHEDULE
SOLID WASTE SPECIAL REVENUE FUND
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Intergovernmental	\$ -	\$ -	\$ 2,161	\$ 2,161
Charges for services	82,520	82,520	83,290	770
Miscellaneous	-	-	7,200	7,200
Total Revenues	\$ 82,520	\$ 82,520	\$ 92,651	\$ 10,131
Expenditures				
Current				
Sanitation				
Solid waste	82,520	82,520	77,848	4,672
Excess of Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 14,803	\$ 14,803
Other Financing Sources (Uses)				
Transfers out	-	-	(48,663)	(48,663)
Net Change in Fund Balance	\$ -	\$ -	\$ (33,860)	\$ (33,860)
Fund Balance - January 1	411,558	411,558	411,558	-
Fund Balance - December 31	\$ 411,558	\$ 411,558	\$ 377,698	\$ (33,860)

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FIDUCIARY FUNDS

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Statement 1

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

	<u>Balance January 1</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31</u>
<u>MID-STATE COMMUNITY HEALTH SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 125,703	\$ 842,164	\$ 810,367	\$ 157,500
<u>Liabilities</u>				
Due to other governments	\$ 125,703	\$ 842,164	\$ 810,367	\$ 157,500
 <u>SCHOOL DISTRICTS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 2,545,264	\$ 2,545,264	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 2,545,264	\$ 2,545,264	\$ -
 <u>STATE REVENUE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 16,670	\$ 254,338	\$ 247,365	\$ 23,643
Due from other governments	15	26	15	26
Total Assets	\$ 16,685	\$ 254,364	\$ 247,380	\$ 23,669
<u>Liabilities</u>				
Due to other governments	\$ 16,685	\$ 254,364	\$ 247,380	\$ 23,669

**STEVENS COUNTY
MORRIS, MINNESOTA**

*Statement 1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>STEVENS COUNTY FAMILY SERVICES COLLABORATIVE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 236,789	\$ 169,233	\$ 197,128	\$ 208,894
<u>Liabilities</u>				
Due to other governments	\$ 236,789	\$ 169,233	\$ 197,128	\$ 208,894
 <u>STEVENS TRAVERSE GRANT PUBLIC HEALTH NURSING SERVICE</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 483,072	\$ 1,211,681	\$ 1,225,300	\$ 469,453
<u>Liabilities</u>				
Due to other governments	\$ 483,072	\$ 1,211,681	\$ 1,225,300	\$ 469,453
 <u>TAXES AND PENALTIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 54,051	\$ 5,470,190	\$ 5,464,259	\$ 59,982
<u>Liabilities</u>				
Due to other governments	\$ 30,559	\$ 5,446,736	\$ 5,440,767	\$ 36,528
Advance taxes	23,492	23,454	23,492	23,454
Total Liabilities	\$ 54,051	\$ 5,470,190	\$ 5,464,259	\$ 59,982

**STEVENS COUNTY
MORRIS, MINNESOTA**

*Statement 1
(Continued)*

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

	Balance January 1	Additions	Deductions	Balance December 31
<u>TOWNS AND CITIES</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 1,994,584	\$ 1,994,584	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 1,994,584	\$ 1,994,584	\$ -
 <u>WATERSHED</u>				
<u>Assets</u>				
Cash and pooled investments	\$ -	\$ 60,828	\$ 60,828	\$ -
<u>Liabilities</u>				
Due to other governments	\$ -	\$ 60,828	\$ 60,828	\$ -
 <u>TOTAL ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash and pooled investments	\$ 916,285	\$ 12,548,282	\$ 12,545,095	\$ 919,472
Due from other governments	15	26	15	26
Total Assets	\$ 916,300	\$ 12,548,308	\$ 12,545,110	\$ 919,498
<u>Liabilities</u>				
Due to other governments	\$ 892,808	\$ 12,524,854	\$ 12,521,618	\$ 896,044
Advance taxes	23,492	23,454	23,492	23,454
Total Liabilities	\$ 916,300	\$ 12,548,308	\$ 12,545,110	\$ 919,498

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OTHER SCHEDULES

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 5

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

	<u>Interest Rates (%)</u>	<u>Maturity Dates</u>	<u>Fair Value</u>
Cash and Pooled Investments			
Non-interest bearing checking	-	Continuous	\$ 97,992
Interest bearing checking (2)	0.15	Continuous	343,761
Money market savings (2)	Variable	Continuous	2,022,994
Certificate of deposit	4.40	December 3, 2006	84,496
Brokered certificates of deposit (8)	3.15 - 6.00	May 23, 2006 to December 14, 2007	587,914
Minnesota Association of Governments Investing for Counties (MAGIC) Fund	Variable	Continuous	58,716
Federal Home Loan Mortgage Corporation (4)	3.00 - 4.00	April 27, 2007 to September 1, 2018	591,771
Federal Home Loan Bank (16)	2.49 - 4.42	June 1, 2006 to May 22, 2018	3,076,417
Federal National Mortgage Association Medium-Term Note (4)	2.00 - 4.50	March 29, 2006 to July 1, 2011	777,369
Small Business Administration (12)	Variable	September 25, 2012 to November 25, 2025	1,003,187
Farm Service Agency (3)	5.225 - 5.75	April 1, 2011 to June 15, 2019	549,757
Total Cash and Pooled Investments			<u>\$ 9,194,374</u>

**STEVENS COUNTY
MORRIS, MINNESOTA**

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

	Assets				Total
	Cash	Undistributed Cash	Special Assessments Receivable		
			Current	Deferred	
County Ditches					
1	\$ 5,727	\$ 89	\$ -	\$ 2,005	\$ 7,821
2	1,654	8	106	6,002	7,770
3	1,103	18	-	2,588	3,709
4	9,889	-	-	38,877	48,766
5	779	-	-	2,753	3,532
6	4,382	-	-	4,001	8,383
7	341	-	-	500	841
8	907	-	-	500	1,407
10	2,761	-	-	6,984	9,745
11	1,586	-	-	28,793	30,379
12	633	-	-	-	633
13	755	-	-	1,000	1,755
14	162	-	-	500	662
15	2,377	152	-	35,395	37,924
16	334	34	-	1,000	1,368
17	219	-	-	8,000	8,219
18	2,333	1	-	6,001	8,335
20	392	-	-	300	692
21	3,707	-	-	120,710	124,417
22	675	-	-	550	1,225
25	2,739	-	-	5,001	7,740
27	483	-	-	300	783
29	640	-	-	400	1,040
30	1,540	-	-	2,000	3,540
31	573	52	-	1,500	2,125
38	469	-	-	7,339	7,808
43	812	-	-	700	1,512
Judicial Ditches					
2	390	-	-	388	778
9	40,563	-	142	121,042	161,747
10/11	777	-	-	383	1,160
Total	\$ 89,702	\$ 354	\$ 248	\$ 405,512	\$ 495,816

Schedule 6

Accounts Payable	Liabilities				Total	Fund Balance Unreserved Undesignated	Total Liabilities and Fund Balance
	Due to Other Funds	Contracts Payable	Deferred Revenue	Advances From Other Funds			
\$ 467	\$ 150	\$ -	\$ 2,005	\$ -	\$ 2,622	\$ 5,199	\$ 7,821
270	50	-	6,002	7,000	13,322	(5,552)	7,770
329	-	-	2,588	-	2,917	792	3,709
8	280	2,571	38,877	112,000	153,736	(104,970)	48,766
3	152	-	2,753	5,000	7,908	(4,376)	3,532
3	-	-	4,001	-	4,004	4,379	8,383
184	-	-	500	-	684	157	841
312	-	-	500	1,000	1,812	(405)	1,407
228	-	-	6,984	6,000	13,212	(3,467)	9,745
7	-	-	28,793	27,000	55,800	(25,421)	30,379
1	-	-	-	-	1	632	633
2	-	-	1,000	-	1,002	753	1,755
1	-	-	500	-	501	161	662
213	-	-	35,395	41,000	76,608	(38,684)	37,924
3	3	-	1,000	-	1,006	362	1,368
3	-	-	8,000	-	8,003	216	8,219
316	-	-	6,001	8,000	14,317	(5,982)	8,335
2	-	-	300	-	302	390	692
14	-	-	120,710	120,000	240,724	(116,307)	124,417
2	-	-	550	-	552	673	1,225
1,025	-	-	5,001	10,000	16,026	(8,286)	7,740
1	-	-	300	500	801	(18)	783
2	-	-	400	-	402	638	1,040
8	-	-	2,000	-	2,008	1,532	3,540
169	-	-	1,500	3,000	4,669	(2,544)	2,125
1	-	-	7,339	8,000	15,340	(7,532)	7,808
1	100	-	700	-	801	711	1,512
-	-	-	388	-	388	390	778
-	-	-	121,042	101,630	222,672	(60,925)	161,747
-	-	-	383	-	383	777	1,160
\$ 3,575	\$ 735	\$ 2,571	\$ 405,512	\$ 450,130	\$ 862,523	\$ (366,707)	\$ 495,816

**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 7

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

	Governmental Funds	Ambulance Enterprise Fund	Total
Shared Revenue			
State			
Highway users tax	\$ 2,197,397	\$ -	\$ 2,197,397
County program aid	1,059,120	-	1,059,120
Market value credit	344,151	-	344,151
PERA rate reimbursement	18,442	-	18,442
Disparity reduction aid	50,560	-	50,560
Police aid	22,549	-	22,549
Total Shared Revenue	\$ 3,692,219	\$ -	\$ 3,692,219
Reimbursement for Services			
Minnesota Department of Human Services	\$ 596,781	\$ -	\$ 596,781
Payments			
Local			
Local grants	\$ -	\$ 7,975	\$ 7,975
Payments in lieu of taxes	29,482	-	29,482
Total Payments	\$ 29,482	\$ 7,975	\$ 37,457
Grants			
State			
Minnesota Department of			
Public Safety	\$ 61,885	\$ -	\$ 61,885
Transportation	285,000	-	285,000
Natural Resources	80,798	-	80,798
Human Services	424,102	-	424,102
Corrections	16,447	-	16,447
Veterans Services	1,400	-	1,400
Water and Soil Resources Board	57,979	-	57,979
Office of Environmental Assistance	51,240	-	51,240
Peace Officer Standards and Training Board	2,820	-	2,820
Total State	\$ 981,671	\$ -	\$ 981,671
Federal			
Department of			
Agriculture	\$ 790	\$ -	\$ 790
Transportation	43,762	-	43,762
Health and Human Services	292,002	-	292,002
Homeland Security	67,439	-	67,439
Total Federal	\$ 403,993	\$ -	\$ 403,993
Total State and Federal Grants	\$ 1,385,664	\$ -	\$ 1,385,664
Total Intergovernmental Revenue	\$ 5,704,146	\$ 7,975	\$ 5,712,121

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**STEVENS COUNTY
MORRIS, MINNESOTA**

Schedule 8

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

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

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

96-4 **Segregation of Duties**

Due to the limited number of office personnel within Stevens County, segregation of accounting functions necessary to ensure adequate internal accounting control is not possible. This is not unusual in operations the size of Stevens 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 Stevens 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:

The County's management is aware of the situation and continues to monitor it to ensure that internal control policies and procedures are being followed.

II. OTHER FINDINGS AND RECOMMENDATIONS

A. MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

04-1 Publishing Board Minutes and Claims Paid

Minn. Stat. § 375.12 requires County Board minutes to be published within 30 days of the meeting and that this publication is to include an individualized, itemized list of County Board-approved payments over \$300. A statement showing the total number of claims that do not exceed the threshold amount and their dollar amounts must be stated. Minn. Stat. § 331A.01 discusses how the County can publish summaries. This section does not change the requirement that payments be published monthly as discussed in Minn. Stat. § 375.12. Also, this section requires that the full data be available at a specified County location or, beginning in 2004, by standard or electronic mail.

When the County published the Board minutes, only a summary of fund payments was published.

The County Board should comply with the above-noted statutes and publish the County Board minutes with vendor payments. During the 2005 legislative session, attempts were made through the Association of Minnesota Counties, the Metropolitan Inter-County Association, and the Office of the State Auditor toward changing and updating the law in a way that benefits counties, but they were unsuccessful.

Client's Response:

In response to Minn. Stat. § 375.12 regarding the monthly publication of vendor payments, the County Board has taken this under advisement, continues to encourage AMC to pursue the change of this statute due to the significant cost of publication, and continues to make the information physically available at the County Courthouse.

B. MANAGEMENT PRACTICES

ITEM ARISING THIS YEAR

05-1 Ditch Fund Balance Deficits

Fourteen of the 30 individual ditch systems had deficit unreserved, undesignated fund balances at December 31, 2005, totaling \$384,469, the largest being \$116,307. These individual ditch system deficits resulted in the Ditch Special Revenue Fund having a net fund balance deficit of \$366,707 at December 31, 2005. Stevens County levied for some of the deficit ditches; however, after considering the deferred amounts, the levies were not sufficient for six of the ditch systems at December 31, 2005.

Minn. Stat. § 103E.735, subd. 1, provides that a fund balance to be used for repairs 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 eliminate the individual ditch system fund balance deficits by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1, which permits the accumulation of a surplus balance for future repairs and maintenance costs of a ditch system.

Client's Response:

Stevens County's Administration and Ditch Authority maintains the belief that the financial condition of the County Ditch Fund is sound when viewed from a full accrual basis and also continues to work towards the resolution of this issue by levying assessments pursuant to Minn. Stat. § 103E.735, subd. 1.

C. OTHER ITEM FOR CONSIDERATION

Other Postemployment Benefits (OPEB)

The Governmental Accounting Standards Board (GASB) recently issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes financial reporting for OPEB plans, and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which governs employer accounting and financial reporting for OPEB. These standards, similar to what

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

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

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

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

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



REBECCA OTTO
STATE AUDITOR

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

Board of County Commissioners
Stevens County

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stevens County as of and for the year ended December 31, 2005, and have issued our report thereon dated December 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stevens 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, except that we did not test for compliance in public indebtedness because Stevens County has no debt.

The results of our tests indicate that, for the items tested, Stevens County complied with the material terms and conditions of applicable legal provisions, except as described in the Schedule of Findings and Recommendations as item 04-1.

This report is intended solely for the information and use of the Board of County Commissioners and management, and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: December 13, 2006